Nova Scotia

Report of the

AUDITOR GENERAL

March 31, 1985

Nova Scotia

Honourable A.R. Donahoe, Q.C.
Speaker
House of Assembly

I have the honour to submit herewith for the year ended March 31, 1985, my Annual Report to the House of Assembly, in accordance with Section 8 of the Auditor General Act.

Respectfully submitted

O. P. Cormier

O. P. Cormier, F.C.A.
Auditor General

Halifax, Nova Scotia
February 26, 1986

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INTRODUCTION

Introduction

If one were to attempt to identify major themes discussed in this Report, they might be classified under four major captions. These would be accountability, independence, audit resources, and broader scope auditing.

With respect to accountability, I have gone beyond the legislative accountability cycle relating to the Estimates, the Public Accounts, the audit function performed by our Office, and the committee review responsibility of the Public Accounts Committee, to introduce certain of the thinking presented in the Report of the Royal Commission on Post-Secondary Education. In addition, I have reiterated the need for a legislated audit mandate, permitting a degree of access by our Office to the operations of third parties in receipt of government funds.

Independence, which is critical to this Office, is closely related to accountability. It is dealt with primarily in the context of recommended changes to the Auditor General Act, which will ensure that this Office is in a position to effectively fulfill its legislated mandate and responsibilities to the House of Assembly.

A third major theme is the adequacy of audit resources available to this Office for the fulfillment of its audit responsibilities. In this connection, there is considerably more detail provided this year on the approach and planning utilized by this Office in addressing its legislated and appointed audit mandates.

The fourth theme, broader scope auditing, is in keeping with the approaches being followed in recent years by most legislative auditors. In two sections of this Report, Crown Agencies and Corporations, and Special Departmental Reviews, six assignments of this type are described.

This Report also contains a section devoted to observations relating to the financial position of the Province and its operating results for the fiscal year. Although this data is derived from the Public Accounts of the Province, and receives a good deal of analytical comment and

discussion, I believe it appropriate for my Office to provide a comment on significant results, relationships, and trends.

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I would like to indicate that the mode of reporting for this Annual Report is one which might be termed "reporting by exception". It is necessary to comply with the reporting requirements of Section 8 of the Auditor General Act, as well as those which flow from Sections 7 and 16. As a result, the preponderence of audit findings and comments included are of a critical nature.

Again this year I would like to state that the majority of our departmental audit reports contain positive findings and conclusions. In support of this statement, and also to provide a more complete perspective of our audit activities during the year, there is included in the Appendices a complete listing of all audits performed. By virtue of many of these not being mentioned elsewhere, the reader can conclude that the majority of our findings were not of a negative nature.

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I would like to acknowledge the excellent cooperation extended to our audit staff in the performance of their audit assignments by the officials and staff of government departments and agencies. In addition, I would like to express my gratitude for the assistance provided us for various administrative and support activities by the Civil Service Commission, Management Board, and the Departments of Finance and Government Services.

I am pleased to acknowledge once more the excellent contribution and performance provided by the audit and administrative staff of this Office during the past year. Although we again experienced extended periods of staff shortages, our principal audit responsibilities were met in a satisfactory manner.

In January 1986, the Office was saddened by the passing of David Ayles, Supervisor of Administrative Services. In his over 20 years with the Office he had made a significant contribution, and in recent years had a major role in the preparation of the Annual Report.

SUMMARY

Summary — 1985 Annual Report

This summary conveys what I consider to be some of the key findings, concerns, conclusions and recommendations covered in the Report. No attempt is made to address each and every topic.

Audit Responsibilities

Sections 7, 8 and 16 of the Auditor General Act outline the major auditing and reporting responsibilities of my Office and they may be found reproduced in Appendix I. While these Sections of the Act tend to emphasize financial aspects, my Office also carries out broader scope reviews that examine management controls and the conduct of operations. A number of these broader scope assignments are reported on in other sections of this Report.

Accountability

In last year's Annual Report I discussed the four steps in the accountability process — the Estimates, the Public Accounts, the Audit function, and finally, the review by a Committee of the Legislature. Considerable detail was presented at that time relating to specific suggestions for improvement and there was worthwhile discussion in the Public Accounts Committee on the various matters raised. In this Report, I again stress selected key aspects of that accountability process and provide an update on the status of suggested amendments to the Auditor General Act.

While the current Act proclaimed in 1973 has served the Office well, significant developments in the roles of legislative auditors across the country reflect the need for amendment. The proposed amendments are of two types, one pertaining to administration and independence and the other pertaining to the scope of audit activity. Under the first one, I am proposing that a Legislative Audit Committee of the House be established having specific responsibilities relating to the Office of the Auditor General.

Concerning the scope of audit activity, perhaps the most important is the need for a legislative audit mandate to perform reviews where government grants and other assistance have been provided. A substantial amount of Government expenditure, approximately 70 percent, relates to grants and assistance provided individuals, institutions, corporations and organizations.

Also in this section, I am including a commentary on the recent Report of the Royal Commission on Post-Secondary Education. This is being done for several reasons. Most importantly, accountability in the use of taxpayer dollars is a dominant theme throughout their Report. Accordingly, it provides a topical reference to supplement my interest in enhancing an awareness of the meaning and significance of accountability.

Financial Position and Operating Results

Comments are made, as last year, on the magnitude of the net debt and deficit financing. Certain key trends and relationships are described.

Additional appropriations are again reported upon, since in approximately half of the cases, the spending had already occurred prior to receipt of Order in Council approval. In six instances this approval was provided from four to nine months after the fiscal year end.

Crown Agencies and Corporations

Under the provisions of Section 16 of the Auditor General Act, we conducted broader scope reviews in two crown agencies where I am not the appointed auditor — Industrial Estates Limited and Workers' Compensation Board. Our overall conclusion with regard to Industrial Estates Limited is similar to the one formed at the time of our last audit in 1976 — that management appears to be fulfilling its responsibilities in an effective manner.

This is the first time that an examination of the Workers' Compensation Board has been undertaken by this Office. Government recently engaged a firm of management consultants to review the Board's administrative structure. Our Report provides a brief commentary

on the consultants' conclusions and recommendations. The results of our examination relating to the data processing and general accounting functions and to internal control systems are also described. We divided the assignment into two distinct phases, have completed the first and deferred phase two for up to two years.

This section includes as well the results of our examination of the auditors' reports on those crown agencies and corporations not audited by our Office. In addition, I am suggesting provisions regarding legislation that will apply to all crown agencies and corporations.

Special Departmental Reviews

Each year my Office performs expanded reviews in certain areas of selected departments of government. While most of these have been at our initiative, others have been at the request of the department. During the past year, four reviews were conducted in the Departments of Attorney General, Tourism, and Transportation, plus the Nova Scotia Government Purchasing Agency.

The audit in the Department of Attorney General pertained to the Provincial Judges Administration Units. We conducted extensive reviews of systems and procedures in 12 of the 15 units, and found significant control deficiencies common to all units. Although it may not be prudent to add staff to fully compensate for weaknesses relating to an inadequate segregation of duties, there are steps which should be initiated to reduce the impact of these deficiencies.

The objectives of the Tourism audit were to analyse the operating performance of the Province's resort hotels — Keltic Lodge, Digby Pines and Liscombe Lodge — and to assess the adequacy of financial and management systems in use. In our view, both Department and resort hotel management are competent and cognizant of the problems identified. Current disclosure does not accurately convey financial operating results. Improved accounting, using full costs, has been recommended.

We conducted a review of the Special Maintenance Projects Program of the Department of Transportation for the five year period April 1, 1980 to March 31, 1985. This program is essentially a summer

works program, but has not been described adequately in the Estimates. Although expenditures totalling $16.3 million were made during this period, the only provision for this program in the Estimates was $1.0 million in 1982. We concluded there was a need for the work performed under this program.

Concerning the Government Purchasing Agency, only phase one of our broader scope coverage has been completed. Our preliminary conclusion, subject to more detail work to be conducted in the second phase, is that the Agency has a reasonably effective organization, and existing practices appear to be in compliance with the Government Purchases Act.

Other Audit Observations

My Office performs many audits in the departments of government and the extent and variety of these audits may be seen by a reading of Appendix II to this Report, which tabulates the 54 audits performed in 19 departments during the current audit year. This section of the Report may be termed the "reporting by exception" discussed briefly in the Introduction. Some of the more significant matters are the following.

Under the Municipal Grants Act, municipal units may be granted emergency funding. Our audit of the 1984-85 fiscal year noted that 9 of the 19 municipal units receiving emergency funding in calendar year 1984 also received funding in each of the previous four years. The Department has not made it a requirement for the municipal units to comply with departmental recommendations as a prerequisite to receiving emergency funding.

Since our reporting in 1980 relating to Portland Estates in Dartmouth, Nova Scotia, unrecoverable costs incurred by the Province have increased by $1.3 million. In addition, the Province has relinquished all claim to Phase I of this development and has accepted a second mortgage in place of its first mortgage claim for the remaining part of the property.

The Auditor General has the responsibility each year to audit both the Public Service Superannuation Fund and the Nova Scotia Teachers' Pension Fund. A qualified actuary has the responsibility for assessing

each fund's position in relation to future pension commitments. In view of the importance of future pension commitments, it has been customary to comment each time that an actuarial valuation is performed. An actuarial report was submitted in 1985 for the Public Service Superannuation Fund and there appears to be a stabilization of the unfunded liability. Our report includes some comments on the Nova Scotia Teachers' Pension Fund as well.

During our audits for the fiscal year ending March 31, 1985, it was necessary to qualify our opinion with regard to two areas in the Department of Attorney General, one area each in the Departments of Fisheries and Transportation and one area in the case of the Victoria General Hospital. I refer you to this section of the Report for the details on these reservations.

The program administered by the Venture Corporations Board is growing steadily and at March 31, 1985, loans totalling $6.5 million had been made to venture corporations, an increase from $3.7 million at March 31, 1984. Proper compliance with the Venture Corporations Act and the provision of more complete information by borrowers is required to enable the Board to perform its annual status reviews and risk assessments of all outstanding loans.

Office of the Auditor General

This section includes information on staffing, financial results, and various professional and training activities of the Office. Also, a brief comment is included on audit planning and resource requirements.

Appendices

Appendix II is an addition to this year's Report, listing all audits conducted in Government departments during the year. This listing provides some perspective for the reader in view of the reporting by exception nature of the Report.

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AUDIT RESPONSIBILITIES

Legislative Requirements

The responsibility for audit of the accounts of the Province by the Auditor General is set forth in Section 7 of the Auditor General Act. The Auditor General is required to examine, in such manner and to the extent he considers necessary, accounts relating to both money received and money expended, and to ascertain whether in his opinion:

— all public money has been fully accounted for;

— money has been expended for the purposes for which it was appropriated by the Legislature;

— the accounts have been properly kept; and

— essential records and procedures to safeguard and control public property are maintained.

The annual reporting requirement of the Auditor General to the House of Assembly is found in Section 8 of the Act. There must be brought to the attention of the House every case in which he has observed that:

— any person has willfully or negligently omitted to collect or receive money belonging to the Province;

— public money was not fully accounted for and paid into the Consolidated Fund;

— any appropriation was exceeded or applied to a purpose or in a manner not authorized by the Legislature;

— an expenditure was not authorized or properly vouched or certified;

— there has been a deficiency or loss through fraud, default or mistake of any person;

— a special warrant authorized the payment of money; and

— any other case that the Auditor General considers should be brought to the notice of the House.

Sections 7 and 8 of the Auditor General Act are reproduced as Appendix I of this Report.

Scope of Examination

The scope of audit activity for this Office can be classified under five distinct headings, each of which is described in the following paragraphs.

1) *Auditor General Act, Section 7 Requirement*

To meet the legislated requirements of Section 7, my Office conducts reviews of the accounting systems, controls, and transactions within the departments of government. These reviews involve tests of systems, accounting records, and other supporting evidence.

All systems in all departments are not subject to audit on an annual basis. Although the audit work undertaken is selective, it encompasses sufficient activity in major departments to fulfill the mandate prescribed in Section 7.

To provide a better perspective regarding the extent of the Office's audit work in the departments of government, I am introducing this year a listing showing the audits we have performed. This tabulation may be found as Appendix II of this Report and includes 54 audits in 19 departments.

Those topics reported in "Other Audit Observations" page 78, represent matters from the audits on this listing for which there is a reporting requirement under the Auditor General Act. If one compares the number of topics dealt with in this Report with the number of audits performed during the year, it is evident that only a small portion contain findings requiring reporting to the House.

2) *Audit of Crown Agencies*

The Auditor General is the auditor of 33 crown corporations, boards, commissions, and funds. These appointments flow from

the Acts of the entities, Order in Council appointments, or appointments made by the Boards of the entities. In each case, it is my responsibility to express an opinion on the annual financial statements of the entity.

A schedule of these audits may be found as Appendix III of this Report. Most of these financial statements are published in the Public Accounts of the Province.

3) *Audits by Other Chartered Accountants*

There are other crown agencies and corporations, the annual audit of which is performed by a chartered accountant other than the Auditor General. A schedule of these may be found as Appendix IV.

Under Section 16 of the Auditor General Act, I am furnished annually with the audited financial statements, and all reports prepared by the auditors of these agencies and corporations. A summary of our review of these reports may be found in the article on page 48. In addition, the Auditor General may conduct any such additional examination and investigation of the records and operations of the agency as he deems necessary.

In this connection, it has been the practice of this Office to periodically review selected aspects of the operations of these crown agencies and corporations. It has not been possible, since this provision was legislated in 1973, to conduct reviews in all such agencies and corporations.

In May 1985, a five year plan was prepared scheduling an audit examination in each crown agency and corporation at least once in this period. We planned to conduct five of these reviews prior to December 31, 1985. Due to staff shortages, we had to defer one major and two minor ones until 1986.

We did perform examinations in two, Industrial Estates Limited, and Workers' Compensation Board, and these are reported on separately on pages 50 and 51.

4) *Other Audit Assignments*

In addition to audit examinations performed under the Section 16 mandate, this Office usually conducts one or more special audit reviews of departments and crown agencies and corporations under Section 7 of the Auditor General Act. These assignments may take one of three forms:

— an indepth review of a given segment or program of a department or agency;

— a review of a function that is performed in several departments, sometimes called a government-wide or horizontal study; or

— a review of management's performance of its administrative responsibilities (similar to our review at the Nova Scotia Liquor Commission in 1984).

There were four such assignments performed in the current audit year, each of which is discussed in this Report.

Department of Attorney General
Provincial Judges Administration Units (page 58)

Department of Tourism
Resort Hotels (page 66)

Department of Transportation
Special Maintenance Projects (page 71)

Government Purchasing Agency (page 61)

We have developed a five year schedule for these special assignments. Four are scheduled for the 1986 audit year.

5) *Federal Provincial Cost Sharing Claims*

My Office has the responsibility to certify claims for various cost sharing programs of the Province with the Government of Canada. For the fiscal year ended March 31, 1985 a total of 566 claims were audited, relating to 11 separate agreements involving 71 projects.

It is our responsibility to determine that the terms of the agreements have been complied with by the departments concerned, and that the amounts claimed are in accordance with the agreements.

* * * * * *

The ability to fulfill the audit responsibilities described in the foregoing paragraphs is primarily dependent on my Office having adequate resources. In last year's Report (pages 23-24), I spoke of the difficulties this Office was encountering in discharging its legislated and appointed audit mandates. In recent years, there has been a significant increase in the size and complexity of government expenditure levels and operations. Yet our approved office staffing complement had remained relatively unchanged over 20 years (from 28 to 33 persons in the period 1965 to 1985).

Our ability to fulfill certain audit responsibilities, particularly in the crown agencies and corporations, and the special examinations (as described in items 3 and 4 above), has been significantly impaired in recent years. This is because actual staffing levels have been below the approved complements during most of calendar years 1983, 1984 and 1985.

In early 1985, Management Board gave approval to fill certain senior staff positions and to complete a reorganization of the Office. However, it was not possible at any time during 1985 to function with a full complement. At December 31, we had an audit staff four persons or 14% below approved complement.

It must be understood that the audit responsibilities of this Office are specifically mandated by legislation or appointment. The extent to which the audit assignments necessary to fulfill these responsibilities can be deferred or cancelled is limited. Accordingly, I can only caution that the resource requirements of this Office must be sufficient to meet our audit responsibilities, or these responsibilities will have to be curtailed by legislative amendment.

* * * * * *

ACCOUNTABILITY

Introduction

Accountability is one of the more crucial aspects of a government's responsibility to the public. The office of a Legislative Auditor plays a significant role in this process of accountability. With these thoughts in mind, in my 1984 Annual Report, I presented a rather lengthy description of accountability focusing on the four steps or elements of the process — the Estimates, the Public Accounts, Audit, and the Public Accounts Committee.

Again this year I believe it would be beneficial to deal with this subject. There are brief commentaries on the Estimates and the Public Accounts to provide the House of Assembly with my view as to how accurate and complete is the information portrayed. In summary, I can state that both the Estimates and the Public Accounts adequately fulfill Government's information requirements respecting these two documents.

The responsibilities and scope of audit of the Office of the Auditor General are described in the Audit Responsibilities section of this Report. The administration and independence of this Office, and the scope of its mandate must complement these responsibilities.

In order to achieve what I consider an appropriate degree of administrative independence and scope of audit, it is my contention that there should be amendments to the Auditor General Act. These amendments reflect developments in the roles of legislative auditors, and their relationships with Legislatures, which have taken place since the current Act was proclaimed in 1973. In my 1984 Annual Report, it was mentioned that I would prepare proposed amendments to the Auditor General Act for consideration during the 1986 sitting of the House. Since then, a formal submission has been made to Government, and it is my understanding that these suggested revisions are being considered.

The Public Accounts Committee is the fourth element in the Accountability Process as portrayed in last year's Annual Report. I was particularly pleased with the discussions which took place at our meetings with the Committee in April and May 1985. I comment on them in this Report.

I am, as well, including commentary on the recent Report of the Royal Commission on Post-Secondary Education. This is being done for several reasons. Most importantly, accountability in the use of taxpayer dollars is a dominant theme throughout the Report. Accordingly, this Report provides a topical reference to supplement my interest in enhancing an awareness of the meaning and significance of accountability. In addition, the Commission's report complements observations from my 1984 and this year's Reports regarding the need to maximize efficient use of tax dollars, within the context of a well co-ordinated and planned approach to expenditures.

Estimates

The Estimates represent a summary of the Government's financial plan for the fiscal year, and include revenue, operating, and capital expenditure programs. They are presented to the House for debate and vote. The approved Estimates for a given year are found as Chapter 1 of the annual Statutes.

As noted in last year's Report, and discussed in some detail in the 1982 Annual Report of the Auditor General, the process of preparation, submission and approval of the Estimates has undergone significant change and improvement with the adoption of the "Management Planning and Budgeting System" in 1979.

I again commend the Government for the mode of presentation of the annual Estimates. They present in a logical, well organized manner, with appropriate detail, the expenditure items for the activities and programs of the departments of government.

There are three matters relating to the Estimates and budgetary control process which I believe warrant comment. These are: the need for realistic estimates, the use of fixed percentage reductions to budget requests, and the benefits of results indicators.

The first relates to the need to realistically anticipate all major expenditure commitments or requirements of government in the upcoming fiscal year. In our comparison of actual expenditures to the Estimates for the 1984-85 year, we again note one situation involving an item which should have been anticipated and included in the budgetary

Estimates. This was an amount of $6.9 million for the Department of Education for funding formula increases. I should comment, however, that a comparison of total Estimates to actual for the 1985 fiscal year, shows both actual revenues and expenditures within 1% of the original fiscal plan.

The second matter relates to the overall administration of the budget process, and concerns more specifically the budget for the 1986-87 fiscal year. In an effort to establish a level of expenditure affordable in relation to anticipated revenues, the Government has embarked upon a program of fixed, across the board, percentage reductions in all departments.

I acknowledge that in extremely difficult times, respecting availability of funds to support government programs and assistance, the most drastic of measures must often be adopted. However, I repeat the word of caution expressed by my predecessor in his 1982 Annual Report that fixed, across the board, percentage reductions can often be disfunctional. They may undermine a rational budget process that gives due consideration to essential priorities.

The third item relates to performance or results indicators. They are used to measure the efficiency of program expenditures, by relating activity to some quantitative measure. They are a form of standard or goal, and serve as a means of assessing productivity.

This Office has expressed support for Government in its efforts to introduce these indicators where possible. I thought it might be appropriate to identify two successful applications of the performance indicator approach. One is in the Motor Vehicle Inspection Division, Department of Transportation, and relates to the road transport inspection function. By application of operational indicators, the Department has achieved a major increase in productivity. During a four year period, various vehicle inspection activities increased in varying degrees from 72% to 237%. This was achieved with no increase in existing manpower and equipment.

A second example of the application of performance indicators is in use in the Resorts Hotel Division of the Department of Tourism. Again this management tool is being utilized to monitor operating costs and to improve efficiency.

These examples are provided to indicate the benefit of analytical tools to support the Estimates process. While it is recognized that all types of activity cannot be precisely measured, all departments should be strongly encouraged to use performance indicators to facilitate improvements in productivity.

Public Accounts

The Public Accounts is the Province's annual report on its financial stewardship, and comprises:

— the financial statements of the Province for the fiscal year (including a number of supporting schedules, notes explaining reporting and accounting policies, and further detail on certain items);

— the financial statements of 30 crown agencies, corporations and funds;

— department expenditures and recoveries by principal function or program; and

— a supplement to the Public Accounts showing additional detail on the expenditures by department for salaries, travel, grants and other expenses.

The financial statements of the Province include an auditor's opinion. Unlike all other provinces in Canada, the Auditor General of Nova Scotia does not have the responsibility for expressing an audit opinion on the Province's annual financial statements. This is performed by a private sector accounting firm.

However, this Office does review the financial statements of the Province and has, on occasion, commented on certain accounting policies and disclosure practices with which we disagreed. The accounting and disclosure policies of government have been improved substantially, commencing with the 1983 Public Accounts. Accordingly, on the basis of our review of this year's financial statements, I can state that they do appropriately present the financial position and the operating results at March 31, 1985.

There are several matters relating to the Public Accounts that warrant mention, and these are dealt with in the following paragraphs.

Use of Forecast Data

In its Public Accounts for the years 1983, 1984 and 1985, Government has included "Forecast" data in the Statement of Current Revenue and Expenditure. This data is in addition to the "Estimate" and "Actual" results for the current year, and the actual results for the prior year. In last year's Report, I said that I considered this forecast data to be irrelevant, and also that the reasons and basis for its inclusion were not stated.

I again repeat this observation and point out that there is no precedent for it in accounting pronouncements, nor in the Public Accounts of other provincial jurisdictions in Canada.

Loan Guarantees

In both the 1983 and 1984 Annual Reports of this Office, it was noted that accounting and disclosure practices of the Province made no allowance in the financial statements for possible losses on loan guarantees.

In the current year's Public Accounts, an allowance of $2.1 million has been made against the "guarantees in effect" of the Industrial Loan Fund. We are pleased to note this improvement in valuation practice.

Disclosure of Travel Expenses

In our audits of the expenses of the Members of the House of Assembly, reported on in my 1984 Annual Report, the need for greater disclosure of Members' expenses was recommended. It was suggested that in keeping with the need for proper accountability, there should be disclosure of such items as annual indemnity payments, committee fees, other stipends, travel expenses for constituency and House related matters, committee travel expenses, and constituency office and other related expenses.

Again I state this would be a significant improvement in disclosure. At present, Members' expenses are not disclosed by type of expense, and these expenses are included in various places within the Public Accounts.

Non Realizable Advances

The Advances and Investments included in the $833 million shown on the Statement of Financial Position of the Province fall into one of two categories. Either they are to be realized by repayment over a period of time according to a predetermined schedule, or they are permanent investments for which no recovery is anticipated, and a full allowance against them has been provided.

Included among these Advances and Investments, is an amount of $74.8 million under the University Assistance Act. The amounts advanced under this Act are loans granted to the universities for capital programs. The amounts are not recovered directly from the universities, but rather a portion is forgiven by the Province each year and charged off to current expenditures. In effect then these advances do not represent realizable recoveries from outside parties, but merely deferments until future years of charges to the Consolidated Fund for amounts already disbursed. An alternate accounting treatment should be considered.

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Although the foregoing describes two matters of disagreement with respect to the accounting and disclosure policies relating to the financial statements of the Province, I reiterate that these statements, in their current mode of presentation, adequately reflect the financial position and the results of the year's operations as at March 31, 1985.

Audit

Introduction

Perhaps the most significant concern one might have relating to the audit activities of an Auditor General is whether or not he has been able

to fulfill the responsibilities mandated by legislation. In order to answer this question, several others must be posed.

- Has the Auditor General had access to all the information required, in order to perform the audits?
- Is the Auditor General provided with adequate resources to fulfill his role?
- Is the scope of his audit mandate sufficiently broad to meet his responsibilities to the Legislature?
- Is there an appropriate degree of independence and freedom of action for the Auditor General in the administration of his office, and the conduct of his audits?

In dealing with the first question, it can be stated without qualification that during the past year, we have obtained whatever information was necessary to perform our audits. Section 9 of the Auditor General Act requires the provision of such information and explanation needed, and this has been graciously furnished in all instances.

The second question concerns the adequacy of resources for the performance of my audit mandate. This topic is also dealt with in two other sections of the Report, under Scope on page 22, and staffing of the Office on page 100. The Office functioned through most of the 1985-86 fiscal year below approved complement, for a number of reasons discussed elsewhere. However, the approved complement and budget allowance for the 1986-87 fiscal year is adequate to perform the legislated and appointed audit mandates.

The other two questions relate to scope of audit activity and independence of the Office. These two basic criteria for the successful functioning of my Office flow from provisions in the Auditor General Act. In my 1984 Annual Report, I indicated that I would be formally presenting detailed recommendations for amendment to the Act in order to provide the degree of scope and independence I consider appropriate.

I have now presented the Government with a formal submission containing proposed amendments together with explanatory and

supportive comments. It should be pointed out that the current Act proclaimed in 1973 has served this Office well, but there have been significant developments within recent years in the roles of legislative auditors and in their relationships with their legislatures. Accordingly, the amendments I have recommended are a reflection of these developments and are, in all cases, similar to ones currently in place in other provincial legislative audit acts. Under the following two captions — Administration and Independence, and Scope of Audit Activity — is a summary of the principal matters presented to Government for consideration as amendments to the Auditor General Act.

Administration and Independence

It is extremely important to ensure that the organization and resources of the Office of the Auditor General be adequate to meet the needs of the Legislature. Decisions with respect to organization, resources, and certain operating practices should not be subject to possible constraint by either Government or departments that are audited by the Auditor General. Otherwise, not only could the independence of the Office be impaired, but the ability of the Office to meet its legislative audit mandate could be inhibited.

Accordingly, the suggestion is being made that there be a Legislative Audit Committee, ideally with some multi-party representation, which would have specific responsibilities relating to the Office of the Auditor General, the principal ones being:

— receiving, reviewing and recommending on the annual estimates of the Office;

— decisions regarding the application to the Office of various government policies, procedures and regulations;

— recommendations to the House of Assembly regarding the appointment of the Auditor General and the Deputy Auditor General; and

— ensuring that there is an annual expenditure audit, and a periodic review of the audit function carried out by qualified individuals independent of the Audit Office.

A committee of this type may be found in six other provinces, and these serve to provide an environment of not only independence but also accountability for the legislative audit function. The composition of the Committee, if adopted, would be decided by Government.

Scope of Audit Activity

There are three items relating to scope which warrant consideration. Perhaps the most important of these, from the viewpoint of accountability, is the need for a legislative audit mandate to perform reviews where government grants and other assistance have been provided. A substantial amount of government expenditures, approximately 70%, relates to grants and assistance provided individuals, institutions, corporations, and organizations. Some of our provincial assistance programs do provide for an audit of the recipient, or an examination of the recipient's financial statements, such as in the case of Department of Health payments to hospitals.

Generally, however, there is no means available to ensure the recipient has spent the money according to the terms of the expenditure, and in an efficient and effective manner. Some legislative auditors perform what is termed an inspection audit as part of their legislative audit mandate to review these grant and assistance programs.

Although it is not envisaged that the authorization to perform these inspection audits would be utilized on an extensive basis, there should be a mechanism to verify, on behalf of the Legislature, that tax dollars are spent for the purposes intended.

The second matter relating to the scope of audit activity concerns broader scope audits. Currently, this Office performs audits of a broader scope under the provisions of Sections 8 and 16 of the Auditor General Act. In the sections of this Report concerning Crown Agencies and Corporations, and Special Departmental Reviews, six of these broader scope audits performed during the past year are described.

However, it is my view that there is need for a clearer enunciation of this mandate, and I have suggested that new sections of the Act be introduced to provide the Auditor General with the authority and responsibility to report whether in his opinion:

— financial, human and physical resources have been acquired at the lowest appropriate cost and appropriate quality and quantity, and at the appropriate time;

— these acquired resources have been converted into goods and services that have an acceptable input-output relationship; and

— satisfactory procedures have been implemented to measure and report effectiveness, in cases where it is reasonable to do so.

These provisions relate to what is called value for money auditing and are found in the legislative audit acts of six other jurisdictions in Canada. However, it should be emphasized these provisions do not empower the Auditor General to comment on, or call into question, the merits of the program policies and objectives of the departments or agencies of government.

The final matter regarding scope, relates to the audit opinion on the financial statements of Government. I can only repeat what was said in my 1984 Annual Report. Nova Scotia is the only provincial government which engages a public accounting firm to attest to its financial statements. By giving this responsibility to the Auditor General, a more independent accounting to the Legislature would be implemented, and a significant duplication of audit effort would be eliminated.

In addition, there are other proposed revisions to the Act relating to:

— qualifications for the Auditor General and Deputy Auditor General positions;

— the means by which the Auditor General's Office may engage outside expert advice;

— reporting requirements of the Auditor General to the agencies and departments being audited;

— discretion with respect to the reporting of immaterial or insignificant items;

— the confidentiality of audit working papers; and

— the provision for the right to request and provide special audits and reports thereon.

Recommendations have also been included for minor amendments to the Act which might facilitate the earlier release of the Auditor General's Report, and a more timely review of it by the Public Accounts Committee.

Public Accounts Committee

In my 1984 Report, and in several previous Annual Reports, suggestions were made for improvement in the organization and procedures used by the Public Accounts Committee, to facilitate a more effective working relationship with the Auditor General. In my meetings with the Committee last year, there were some developments of significance which deserve comment.

Over half of one meeting was devoted to a discussion of computer related matters by two senior Government staff, the Executive Director of the Systems and Computer Services Division of the Department of Government Services, and the Director of EDP Policy from Management Board. The Audit Manager from my office with prime EDP audit responsibilities also participated. This discussion provided an opportunity for Committee members to become informed about departmental initiatives regarding the management of computer resources, and pertinent issues relating to computer security and control. I believe this type of session, resulting from an article in our Report, demonstrates the benefits of a planned, pre-arranged discussion on a specific topic of some importance.

Of more significance, were a number of pertinent comments made by Committee members relating to the role and process of the Committee. The thought was expressed that the Committee should be concentrating its attention on significant issues of management and financial administration, rather than on isolated, individual transactions. In a similar context, a member stated that the Public Accounts Committee devotes little if any time dealing with the Public Accounts themselves. There was a discussion of the debt and deficit position of

the Province, and also one relating to the need to institute more value for money auditing, and inspection audits of transfer payments.

These foregoing observations convey a sense of the role of this Committee which is in concert with that of other Public Accounts Committees in Canada, and supportive to what our Office has been advocating. In moving towards a more effective working relationship between this Committee and our Office, it might prove useful to tabulate the principal suggestions we have made in recent years.

- Formal enunciation of the role and responsibility of the Committee.
- The use of formal agendas, and the provision of required background material to facilitate organization of meetings.
- The preparation of a substantive report annually to the House.
- The scheduling of Committee meetings other than when the House is sitting.
- It is recommended that the Chairman of the Public Accounts Committee be a member of the Opposition as is the case of all other jurisdictions in Canada, except one. With the Committee's primary responsibility being to examine the administration's performance, there could be or appear to be some conflict of interest when a Government member chairs this Committee.

Royal Commission on Post-Secondary Education

The recent Report of the Nova Scotia Royal Commission on Post — Secondary Education is worthy of comment in my Annual Report because of the manner in which it deals with certain issues which are government wide in their implications, and which also complement some of my concerns.

The most relevant of these considerations is accountability about which the Commission states, *"accountability is more necessary than ever in a time of restricted economic growth and consequently of constraint in the funding that may be made available to the universities"*. The report notes in its introduction that the matter of public

accountability was identified in the 1974 Report of the Royal Commission on Education, Public Services and Municipal and Provincial Relations (the Graham Commission).

In its discussion of the need for accountability in the use of tax dollars, the Commission carefully distinguishes between the right to academic freedom and university autonomy. This is done within the context of self sufficiency in revenue, by pointing out that there is a requirement for accountability to those who provide the substantial portion of university revenues.

A second matter developed in their Report relates to the limitation of financial resources available to meet all public expectations, including support to post-secondary education.

Closely associated with the foregoing is a third issue, that of cost effectiveness with respect to financial objectives for post-secondary education. The Commission points out that cost effectiveness does not necessarily equate with the least cost, but rather represents *"the provision of the highest quality of education possible for the level of resource available, rather than the provision of education for the lowest cost possible."*

These matters of financial capacity and cost effectiveness complement remarks made in my 1984 Report to the effect that *"Government and taxpayers alike, should recognize that because of this financial condition, all demands cannot be met and many existing programs will have to be reexamined and possibly restructured. The pressures to administer and control all expenditures with the utmost regard for economy, efficiency and effectiveness have never been so critical".*

Also dealt with by the Commission was the management of the post-secondary educational system in the Province. Reiterating the observations of the 1974 Graham Commission, it was noted that there are significant weaknesses in objectives, planning, and coordination for this system. They stated that there was *"a severe lack of academic coordination and academic planning in Nova Scotia . . . some attempt was made in the direction of coordination, but generally speaking, the expansion of programmes and the development of overspecialization continued unchecked."*

These observations point to the need for Government to determine appropriate policies for post-secondary education, and to ensure that there is responsible management of the system — one which involves an outlay of taxpayer dollars in excess of $200 million annually.

In summary, three items dealt with by the Commission and noted in the foregoing paragraphs are ones which I deem to be of real significance. These have been discussed in previous and the present Annual Reports of this Office and are:

- the need for a proper degree of accountability by those who use taxpayer dollars;

- a realization that the Province's financial capacity cannot satisfy all taxpayer demands, and that many existing programs will have to be reexamined and possibly restructured; and

- activities requiring substantial government financial support must be effectively and efficiently managed.

The Government is to be commended for having commissioned this enquiry into post-secondary education. The members of the Commission are to be congratulated for their insightful analysis of the key issues impacting on our post-secondary education system.

As their report is discussed and debated, I trust that the underlying issues of accountability, fiscal capacity, and effective management will not be disregarded in a preoccupation with other matters. I would also hope that we can achieve a consensus that recognizes modifications to many aspects of post-secondary education in Nova Scotia are likely required.

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FINANCIAL TOPICS

Financial Position and Operating Results

In my Annual Report last year I provided a brief commentary on certain relationships and trends relating to the financial position of the Province. Budgetary deficits and increasing debt loads have been the topics of much discussion and media attention in recent times. I acknowledge that what I am saying is not entirely new. Nonetheless, I feel that I should once more include this item in my Annual Report because of the significance of the amount of the debt and the likely effects of its spiralling trend.

Last year, recognizing that there were no generally accepted financial analysis techniques for government, I described several key measures that could be utilized. This year, for consistency purposes, I will once more use the same indicators.

The most commonly used indicator of a province's financial position is its net debt position. In the Public Accounts, the Statement of Financial Position highlights this amount, which is the excess of liabilities over realizable assets.

The Province's net debt, at March 31, 1985, had risen to $2.7 billion, an increase of $460 million or 20% during the year. Over the past decade, the net debt has risen from $319 million at March 31, 1975. This increase of $2.4 billion during the ten years is attributable to:

Capital expenditures	$1.5 billion
Net excess of operating expenditures over operating revenues	1.3 billion
	2.8 billion
Less: sinking fund earnings	.4 billion
Increase in net debt (1975 to 1985)	$2.4 billion

Provisions for sinking fund installments and serial retirements of $388 million over the 10 year period are not included in the above tabulation.

The operating deficit or surplus for the year is a second measure of financial performance. The year's operating revenues from taxes, federal grants, and other sources is compared with the total expenditures for the operation of all departments of government, grant and assistance programs, as well as the cost of servicing a province's debt.

The Net Revenue Deficit for the March 31, 1985 fiscal year amounted to $285 million. The Public Accounts, Statement 3, provides further detail relating to this figure. The 1985 deficit increased by 19.5% or $46.5 million over the 1984 deficit of $239 million.

In addition to annual operating expenditures, the Government spends money for capital purposes such as highways; constructing, expanding and equipping government buildings and facilities; and grants for building and equipment items for hospitals and other institutions. Although these amounts are not included in the calculation of the current year's deficit, they do increase the Province's net debt. The total of these capital expenditures was $231 million in 1985.

The third measurement relates to selected revenue and expenditure amounts. The magnitude of significant items comprising the year's operating results is a useful analysis.

The following schedule summarizes the four principal expenditure areas — health care, education, social services, and debt servicing costs. The 1985 expenditures are shown in comparison to last year, also to 1980 (five years ago) and to 1975 (10 years ago).

Significant Expenditures Compared With Total Current Expenditures
(in millions)

	1985	%	1984	%	1980	%	1975	%
Education	$ 738	27	$ 707	28	$ 402	27	$229	29
Health	755	27	690	27	384	25	217	27
Social Services	283	10	259	10	145	10	68	8
Debt Servicing	471	17	407	16	142	9	76	10
Other	543	19	495	19	445	29	205	26
	$2,790	100	$2,558	100	$1,518	100	$795	100

Similarly, there is scheduled a summary of the actual revenues from income and sales taxes, and federal sources which together comprise 87% of total revenues. They too are shown in comparison to prior years, and as a percentage of the year's total expenditures.

Significant Revenues Compared With Total Current Revenues
(in millions)

	1985	%	1984	%	1980	%	1975	%
Income Taxes	$ 544	21	$ 500	21	$ 316	21	$205	25
Sales Taxes	596	23	500	21	295	19	163	20
Federal Grants	1,091	43	1,023	44	925	60	460	55
Other	319	13	301	14				
	$2,550	100	$2,324	100	$1,536	100	$828	100

Further analysis of the preceding two schedules shows the increasing difference between current revenues and expenditures (excluding capital items). While total current revenues increased by 66% from $1,536 million in 1980 to $2,550 in 1985, total current expenditures increased by 84% from $1,518 million in 1980 to $2,790 in 1985. This disparity in growth rates has contributed to the deficit.

The fourth measurement of financial performance is the comparison of the year's actual to the Estimates, for operating revenues and expenditures. This analysis indicates how well the Government has followed the fiscal plan reviewed and approved by the Legislature. For the 1985 fiscal year, the total revenue and recoveries of $2,550 million were within $26 million or just short one percent of the $2,576 million included in the Estimates. Actual total expenditures for 1985 of $2,790 million were $20 million, or seven tenths of 1% over the approved Estimates of $2,770 million. Only two areas, Transportation at 8% and Resource Development at 7%, had an excess of actual expenditures over their approved Estimates greater than the 1% overall excess.

This is the second consecutive year in which total actual revenues and expenditures have each been within 1% of the Estimates, and Government is to be commended for these results.

Provincial Debt and Deficit Operations

Last year, in a discussion of these topics, it was acknowledged that governments at all levels were striving to reduce their annual operating deficits, while at the same time facing the need to maintain essential government services at increasing cost. Since that time, debate and discussion on deficit operations and government debt have been multitudinous. Although much has been said and written on these matters, I feel obliged, as Auditor General, to repeat certain thoughts.

The net revenue deficit of $285 million this past year, and the size of the total net debt of $2.7 billion, continue to receive a great deal of attention from both government and the public. As the burden of this debt increases, priorities will have to be carefully scrutinized in deciding which demands for government services and support can be met.

The foregoing schedule of significant expenditures illustrates the compounding effect of the higher debt level on the amount of debt servicing costs. In 1985 this amount increased to $471 million or by 15.7% over 1984. More dramatic is a comparison of 1985 debt servicing cost to 1980, which shows a threefold increase in the short span of only five years. Furthermore, this increased debt servicing cost, as it goes from 9% to 17% of total current expenditures, results in a smaller portion of government funds available to support other services.

Another observation relates to the large portion of the long term debt being incurred to finance current operating costs. About 47% of the net debt has been incurred to fund the current operating deficits of the past eight years.

A further comment on the debt and deficit conditions relates to the need to ensure that resources are utilized in the most efficient and effective manner possible. This can only be accomplished through the setting of appropriate objectives before there is an obligation for the expenditure, and realistic efforts at pre-expenditure justification analysis and the utilization of controls, including performance indicators. This means that existing programs must continue to be re-examined with a view to possible restructuring. The conflict between what we would like to have and what we can afford must be resolved.

Additional Appropriations

The Estimates tabled in the Legislature represent the Government's spending plans for the coming year. Under the Provincial Finance Act, adjustments to these spending plans, through additional appropriations, are approved by Order in Council rather than further scrutiny and approval by the Legislature. Because these additional appropriations are not subject to House approval, legislative tradition places an onus on the Government to ensure that the original spending plans are as realistic as possible.

Order in Council approval was given to spend an additional $70.8 million above the amounts approved by the Legislature for various Estimate Resolutions. This compares to $62.8 million in 1983-84. As the following tabulation shows, a much higher proportion this year pertains to current expenditures, as capital has dropped to $.2 million from $27.7 million in the prior year.

Additional Appropriations ($ Million)

Year	Current	Capital	Total
1984-85	70.6	.2	70.8
1983-84	35.1	27.7	62.8
1982-83	84.2	5.9	90.1
1981-82	166.2	24.8	191.0
1980-81	72.5	31.2	103.7
1979-80	53.8	6.8	60.6
1978-79	86.1	10.2	96.3

Each of the past several Auditor General Reports has included an article on this subject. I report on it again this year since 17 of the 36 additional appropriations were not requested until after the fiscal year end, the time frames for approval were unreasonably long, and 18 of the 36 were approved by Order in Council after the overspending had occurred.

The following is a list of the 17 approved after March 31, 1985, totalling $48.9 million or 69% of the total dollar value of additional appropriations for the year.

Appropriations Approved after March 31, 1985

Department	Approval Date	Amount
Agriculture and Marketing		
Agricultural Services	July 30, 1985	$ 167,143
Attorney General		
General Administration	April 16, 1985	216,000
Development		
General Administration	December 17, 1985	20,029,913
Other Agencies	December 17, 1985	310,526
Education		
Grants and Assistance	April 16, 1985	6,977,300
Assistance to Universities	April 16, 1985	1,594,500
Finance		
Debt Charges	July 23, 1985	8,061,135
Health		
Health Programs	July 16, 1985	2,028,927
Labour and Manpower		
Manpower Services	April 23, 1985	1,860,800
Public Service		
Public Archives of Nova Scotia	April 23, 1985	22,500
Nova Scotia Boxing Authority	June 4, 1985	4,057
Legislative Council	June 18, 1985	14,045
Government House	June 18, 1985	52,825
Executive Council Office	June 18, 1985	12,870
Social Services		
Family and Children's Services	April 16, 1985	500,000
Public Assistance	April 16, 1985	3,100,000
Transportation		
Administration and Maintenance — Transportation Systems	November 19, 1985	3,984,259
		$48,936,800

Section 28(1) of the Provincial Finance Act states in part:

"When it appears to the Minister or principal officer having charge of a service that the sum appropriated by the Legislature for any ordinary or usual service is insufficient to meet the requirements of that service during the year for which the appropriation has been made . . . the Minister or principal officer shall make a report of that fact to the Minister of Finance and shall in such report estimate the additional sum required to carry out the service".

I can appreciate officials in Government departments not requesting additional appropriations until they have sufficient information on whether their appropriation, as approved by the Legislature, is sufficient to meet requirements for the year. However, the above schedule shows that the additional appropriations for five departments, with requests totalling $34.6 million, were not approved until subsequent to June 30 following the fiscal year end, and two very large ones not until November and December.

During our audit of additional appropriations for fiscal year 1984-85, it was noted that 18 of the 36 appropriations did not receive Order in Council approval until following the overspending of the appropriation. The Provincial Finance Act calls for commitment control in Section 9(2) to ensure sufficient balance is available in each appropriation prior to the issue of public money. I can only bring these matters, once more, to the attention of the House of Assembly and quote from the 1981 Annual Report on the topic: *"These circumstances indicate either a lack of appropriate accounting and control routines in the departments of government or inadequate attention to these matters by those responsible for them."*

* * * * * *

I am required under Section 8(1)(f) of the Auditor General Act to call attention in my Annual Report to every case in which *"a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized a payment of money".*

No special warrants were issued during the 1984-85 fiscal year.

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CROWN AGENCIES AND CORPORATIONS

Introduction

There are 16 crown agencies and corporations, excluding hospitals, the annual audits of which are performed by chartered accountants other than the Auditor General. A schedule of these is included in Appendix IV.

Under Section 16 of the Auditor General Act I am furnished annually with the audited financial statements and all reports prepared by the auditors of these agencies and corporations. In addition, the Auditor General may conduct any such additional examination and investigation of the records and operations of the agencies as he deems necessary.

As mentioned elsewhere in this Report, a long range schedule for ensuring cyclical reviews of these agencies has been introduced by my Office. The purpose of these reviews is to facilitate a better understanding of each entity and a fuller appreciation for its operations. The two crown corporations selected for review by this Office in 1985 — Industrial Estates Limited and Workers' Compensation Board — are the subject of articles further on in this section of my Report.

It is my belief that this Office provides a necessary audit function respecting crown agencies and corporations. My audits are different in scope than those performed by the private sector auditors. I do not duplicate their work regarding an audit opinion on the entity's annual financial statements. Rather, the focus of our audit reviews is on broader issues such as the management and organization of the enterprise, and the manner in which it is meeting its legislated or otherwise determined objectives. The results of these reviews will be reported to the agency, and included in my Annual Report.

Review of Auditors' Reports

We reviewed the audited financial statements and reports submitted by the auditors of other crown agencies and corporations. The following observations are made as a result of that review.

- Seven of the 16 crown agencies and corporations did not have their audited financial statements published in the Public Accounts of the Province.

- The management letters prepared by the private sector auditors for Check Inns Limited and the Sherbrooke Restoration Commission each point out serious weaknesses in financial control and maintenance of proper books and records. Check Inns Limited is more than 70% funded by the Province, and the Sherbrooke Restoration Commission received from the Province an operating grant of $613,000 and a capital grant of $93,000 in 1985.

- The management letter prepared by the auditors of Nova Scotia Resources Limited points out a lack of good operating and accounting procedures for the accumulation and timely claiming of federal grants, and the preparation of interim financial statements for management purposes.

- Only the Nova Scotia Municipal Finance Corporation and the Nova Scotia Power Corporation provide information in the notes to their financial statements on their enabling legislation. This enhanced disclosure is a positive feature that should be considered by all crown agencies and corporations.

In the 1982 Annual Report, suggestions were made regarding statutory requirements for crown agencies and corporations that would enhance their accountability to the House and to the people of Nova Scotia. In my view, the Province requires legislation that will apply to all crown agencies and corporations, and this legislation should make provision for:

— the maintaining of adequate financial records, and preparation of interim financial statements where required for management purposes;

— the preparation of annual financial statements and the audit of those financial statements within six months following the fiscal year end;

— all audited financial statements to be published in the Public Accounts of the Province;

— the notes to the financial statements to outline the legislated mandate of the entity;

— the auditor's report to mention whether the transactions examined are in accordance with legislation, regulations, the charter and by-laws of the agency or corporation; and

— the tabling of an annual report, including financial statements, in the House of Assembly.

In addition, an attempt should be made to more adequately define what constitutes an agency or corporation of the Crown. At present there are several definitions for crown agencies and corporations. For example, the Provincial Finance Act and Auditor General Act contain somewhat different definitions. This situation has created some problems in determining the status of certain entities.

Industrial Estates Limited

Review of Loan Process

During the past year, this Office completed an examination of the lending and investment process at Industrial Estates Limited. Although a chartered accountant other than the Auditor General is the appointed auditor of the Corporation, I am authorized under Section 16(2) of the Auditor General Act, to conduct such additional examination and investigation of the records and operations as I deem necessary. This was our first such examination at the Corporation since 1976.

Our objective was to review and evaluate the lending and investment process followed by Industrial Estates Limited in its support to industry in the Province. To accomplish this, we obtained up to date information on the organization, its policies and practices, and recent results of operations. Our review concentrated on the 1983-84 and 1984-85 fiscal years.

We selected for detailed review 17 of the approximately 90 loan or investment accounts. We examined the analysis and approval process, the ongoing monitoring of accounts, and the follow-up action taken on accounts in difficulty.

Our overall conclusion is similar to the one formed at the time of our last audit in 1976. The Corporation's administration of its lending and

investment process is sound and business like. Its management appears to be fulfilling its responsibilities in an effective manner. Files and other supporting documentation were found to be well prepared and maintained.

Our audit included an assessment of the contribution by the Board of Directors. The Board has a tradition of being composed of dedicated, high calibre representatives from various occupations and professions. Their combined expertise and outside perspective have served the Corporation well. Our conclusion is that the Board of Directors continues to fulfill a most important and vital role. Its members provide an independent point of view that such a government lending agency must have to complement management's efforts and initiatives.

The March 31, 1985 financial statements of Industrial Estates Limited include a provision for the possible decline in value of the investment in Industrial Development Projects. This provision was $13,460,780 ($13,503,600 for 1984) on a $112,190,528 ($127,338,560 for 1984) investment in these projects.

Although our assignment involved a review of the details supporting the provisions for losses on Industrial Development Projects, it is not our responsibility to express the audit opinion on the adequacy of this provision. This responsibility rests with the Corporation's auditors. However, we have concluded that the process used by management, in estimating possible losses on its investments, is a reasonable one.

Workers' Compensation Board

Introduction

During the past year, this Office commenced an audit examination of the Workers' Compensation Board. Although the Auditor General is not the appointed auditor of the Workers' Compensation Board, I am authorized under Section 16(2) of the Auditor General Act to conduct such additional examination and investigation of the operations and records as I deem necessary. This is the first time such an examination at the Board has been undertaken by this Office. We divided the assignment into two distinct phases.

The objectives of the first phase were to obtain basic information on the Board, and to perform a preliminary evaluation of financial and

management controls. In this phase we also intended to plan the detailed procedures for an indepth analysis of selected areas of the operation in phase two.

Phase one of our examination has been completed, but due to the current situation at the Board, as described in the following paragraphs, phase two is being deferred for up to two years.

Under the provisions of the Workers' Compensation Act, the Board assesses and collects amounts based on employee payroll costs, from various classifications of employers. This is done in order to meet operating expenses, compensation claims and pensions payable. The Board's operation is a sizeable one, as conveyed by its 1984 financial statements which show assessments in excess of $50 million for administrative and accident costs, and an asset base of $130 million.

There are four Commissioners appointed by the Governor in Council, one of whom is designated as Chairman. In 1984 a General Manager was appointed for the first time and he is also now the Board Chairman. There is a management and staff group of approximately 100 people.

Consultants' Reports

As a result of the Government's concerns, the Minister of Labour engaged a firm of management consultants in late 1983 to review the administrative structure of the Board.

The consultants issued a series of reports on the organization and its operations. These included:

- A Review of the Administrative Structure of Workers' Compensation Board of Nova Scotia. April, 1984
- Organization Review of Claims Department of the Workers' Compensation Board of Nova Scotia. May, 1985
- Review of the Data Processing Department of the Workers' Compensation Board of Nova Scotia. May, 1985

- Organization Review of the Executive and Assessment/Accounting Department of the Workers' Compensation Board of Nova Scotia.
  June, 1985

As part of our phase one review, we examined these reports. Collectively they outlined serious organizational and operational situations that apparently had evolved over a number of years. Management indicated that there was agreement with most of the recommendations made in these reports, and will implement them over the next few years.

In view of this, I concluded that the detailed work for phase two of our examination would best be deferred for up to two years.

The principal matters dealt with in the consultants' reports, together with our comments, are presented below.

Organization and Administrative Structure

The consultants made a number of critical observations and recommendations relating to the organization and administrative structure and process at the Board.

The Commissioners were involved in the day to day operations of all departments, resulting in confusion for staff concerning authority and accountability. Job descriptions, as well as policy and procedure manuals, were generally found to be out of date and requiring significant revisions.

The organization and administrative structure for the major departments have been, or will be, changed to provide better management and control of day to day operations.

Data Processing Function

The consultants' report on the data processing department detailed serious criticisms of the overall management and operation of the data processing function and made a number of significant recommendations.

We found that virtually all financial and operational activities of the Board rely directly or indirectly on the data processing function. In our view, the development, control and ongoing availability of an efficient and effective data processing function must be of utmost concern to management.

General Accounting Function

The books of account have been fragmented and not subject to adequate maintenance and control. The general ledger is posted and balanced only at year end. Interim financial statements are not prepared and therefore senior management is deprived of an essential management tool.

An organization the size and complexity of the Workers' Compensation Board should have these accounting and reporting functions performed on a regular basis. The consultants made recommendations to improve the organization and operations of the accounting function.

We have also noted in our phase one review that the annual financial statements of the Board need improvement by the inclusion of certain additional information.

Systems of Internal Control

Deficiencies in the systems of internal control were noted by the consultants and our Office. These related to matters such as segregation of duties, security access controls, independent checks and approvals, and limited management reporting on financial and operational results.

To address the above problems, we have recommended that detailed systems reviews be performed in the departments, incorporating both the manual and computerized procedures and controls.

A professional auditor from my staff, with extensive experience in the evaluation of both computerized and manual systems, is to be seconded to the Board for a period of a year or more, to assist in the implementation of satisfactory computer and accounting controls.

Conclusion

In my opinion, the engagement of management consultants to review the Board's operations, and the appointment of a General Manager represent appropriate courses of action by Government.

There has been considerable progress made in resolving some of the major problems. Although a number of key issues remain, management's intention to address them without undue delay augurs well for essential improvements in the operation of the Board.

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SPECIAL DEPARTMENTAL REVIEWS

Introduction

Each year, my Office performs expanded reviews in certain areas of selected departments of government. While most of these have been at our initiative, others have been at the request of the department. These reviews are also done to assess specific queries which we may have.

During the past year, four such reviews were conducted. These were:

Attorney General — Provincial Judges Administration Units
Nova Scotia Government Purchasing Agency
Tourism — Resort Hotels
Transportation — Special Maintenance Projects

The objectives, scope, and results of each of the above reviews are described in the following articles.

Department of Attorney General
Provincial Judges Administration Units

Introduction

The Department of the Attorney General maintains public offices throughout the Province for Registry of Deeds, Probate, Prothonotaries, Sheriffs, and Provincial Judges. These offices are subject to periodic audit by our Office.

. It had been our practice to visit two or more locations annually, and perform reviews of all public officials in these locations. However, this practice did not permit us to obtain an overall perspective on the total operation throughout the Province by type of official, and the relationship of each office with the Department's head office in Halifax.

To provide a more complete review of the operations of these offices, we have revised our approach. We now audit all public officials of the same type at all or most locations throughout the Province. In conjunction with this, we examine related activities in the head office of the Department in Halifax. The first of these expanded assignments

involved a review of the Provincial Judges Administration Units in 1984-85. A similar type of audit of the Provincial Sheriffs is scheduled for 1985-86.

The objective of our audit of the Provincial Judges Administration Units was to determine if there were adequate systems of control for revenues, receivables, and receipts for provincial fines and costs. We were able to perform reviews in 12 of the 15 units in the Province.

This audit revealed systems and control deficiencies common to all Administration Units, and instances of non-compliance with Departmental policy directives. Our principal audit findings in two areas, systems deficiencies and non-compliance, are presented in the following paragraphs.

Systems Deficiencies

We encountered four major deficiencies in the operating systems.

- There is inadequate segregation of duties in most Provincial Judges Administration Units to provide appropriate accounting control. Accordingly, a greater degree of monitoring is necessary from head office. Our recommendation is that an internal audit position be established to perform this function.

- Policy and procedure manuals, although available for other public officials, have not been prepared for the Provincial Judges Administration Units. At present the Policy and Procedures Directives are in memorandum and correspondence format, and not in a formal manual. It is our view that certain non-compliance with control procedures can be attributed to the lack of a policy and procedure manual.

- High error rates were found in the outstanding and pending case lists maintained at head office. This is largely due to the Department using a manual system for a high volume activity. The procedures relating to confirmation and receipt of data are often inaccurately or tardily performed. There are plans to computerize the data accumulation for this function which should improve the process.

- The present system for notices of violation for motor vehicle fines and license suspensions was found to be inadequate. There were deficiencies in the control over forms, follow-up procedures for overdue fines, and checks to ensure all violations have been processed.

Non-Compliance with Department Policies and Procedures

Our review of compliance with Department policies and procedures at the units revealed cases where these were not being followed, such as:

— improper use of a mailbook to record and control receipts;

— prescribed cash reconciliation procedures not followed;

— timely bank reconciliations not performed;

— the two signature requirement on cheques being disregarded;

— tardy follow-up of overdue fines; and

— some monies not recorded on official receipt forms as soon as possible.

In addition, at eight of the units visited, there were minor instances of control deficiencies, non-compliance with prescribed policies, and other clerical oversights.

Concluding Remarks

The foregoing commentary on our audit of Provincial Judges and Administration Units is more detailed than articles of prior years dealing with audits of the Department's public officials. There are two reasons for this. First, our revised audit approach has provided a broader perspective on the total operation of all similar offices.

Second, and more importantly, it is my responsibility to present the results of our examination in sufficient detail so that deficiencies can be

clearly understood. It is necessary that I indicate where there is the possibility that all revenues are not being reflected, or an opportunity exists for fraudulent activity.

The most serious control deficiency, an inadequate segregation of duties, results in a reservation to the audit opinion on the completeness of revenues and receipts. This is largely due to the limited number of staff in the Administration Units. Although it may not be prudent to add staff to fully compensate for these weaknesses, there are steps which should be initiated to reduce the impact of these deficiencies. Some form of regular review by head office, such as an internal audit review, must be considered.

We have made recommendations regarding other systems and control deficiencies, and it is our understanding that these will be given serious consideration and implemented where possible.

Government Purchasing Agency

Introduction

In the Annual Reports of the Auditor General for 1975, 1976, and 1977 there were articles on the Government Purchasing Agency based upon extensive reviews conducted during those years. These articles focused on a number of matters relating to the operation of this Agency in the areas of policies and procedures, the tendering process, area buying, research activities, monthly reports to the Auditor General, the Government Purchases Act and other related matters.

In 1979, in response to matters raised in these articles and at the suggestion of the Auditor General, the Government of Nova Scotia engaged a management consulting firm to conduct a management review of the Government Purchasing Agency. Their report, completed in June 1979, identified various weaknesses in the operation of the Agency and set forth a series of findings and recommendations in two general areas — legislation and operating practices.

The Auditor General's Report for March 31, 1979 commented on the more significant matters in the consultants' report. We recommended that the Government make every effort to implement, without undue

delay, the recommendations of the consultants in order to *"provide the Province with a purchasing function appropriate to the present day needs of a large government operation, and to maintain public confidence in the system"*.

Until the current year, due to resource constraints and other priorities, this Office had not undertaken any detailed audit work in the Government Purchasing Agency since 1979. In 1985, we undertook a special assignment of two distinct phases. We completed the first phase, and had planned to complete the second phase in the fall. Unfortunately, due to staff shortages, we were unable to commence the second phase, and have scheduled it for completion during 1986.

Phase One Audit

The objectives of this phase were:

— to determine the extent to which recommendations made by the consultants in 1979 had been acted upon;

— to update our knowledge of current operating policies and procedures employed by the Agency; and

— to plan phase two of this assignment which invoives detailed testing of purchasing activities and transactions.

Our overall conclusion, based upon the completion of the first phase of our assignment, is similar to that of the consultants in 1979. The Government Purchasing Agency is a reasonably effective organization, and existing practices appear to be in compliance with the Government Purchases Act. We will provide a more complete report of audit findings and conclusions in next year's Annual Report, upon completion of phase two.

The following paragraphs comment on our follow-up of significant matters from the consultants' report of 1979, and from our audit reports from the years 1975 to 1977. Also included, where possible, are comments from the work we performed in 1985 in phase one of our assignment.

Policy and Procedures Manual

In 1981, the Agency produced an Operations Manual containing various operating routines for use by departments and agencies of government. To date there are 20 routines in place covering most of the principal areas identified by the consultants as requiring attention.

It is our opinion that this manual has been well prepared, and effectively covers the areas with which it deals. There are, however, certain matters which as yet have not been included in the manual. To a large extent these are policy matters of Government and are dealt with in the following paragraphs.

Government Purchases Act

This Act has not been amended since 1964. It was the consultants' view that there should be revisions to the Act relating to such matters as the discretionary authority of the Director of Purchases, and the need for more specific requirements regarding public tendering, and bid evaluation and award.

Although the provisions of the Act would appear to be inadequate, the Agency's operating practices largely compensate for these deficiencies.

Section 9 of the Government Purchases Act requires a monthly submission to my Office showing all instances where:

— *purchases have been made without inviting tenders and the amount of the purchase exceeded $1,000; and*

— *after inviting tenders but where the purchase was not made from the person submitting the lowest tender.*

These reports are forwarded to us for review on an after the fact basis, and contain literally hundreds of exception purchases. We are in no position to assess the situation which existed at the time of tender award, nor are we equipped to deal with the volume of exception

purchases being reported to us. Most significantly, this process assumes we have a final review and approval function, which is clearly not our responsibility but one of the Director of the Agency and his Minister.

Although these reports are extremely meaningful and should be produced on a monthly basis for the use of the Agency, the existing reporting requirement to this Office implies a degree of responsibility for ongoing review and comment by me which is not possible. Accordingly, I repeat the suggestion of my predecessor and the consultants that this section of the Act be amended.

Area Buying

An operating routine has been developed for area buying. There are still shortcomings concerning the lack of data respecting the cost of this practice, and the setting of general guidelines to be followed. It is our suggestion that these issues be considered for inclusion in the Operations Manual of the Agency.

Somewhat related is the question of government purchasing from available sources within the Province. In a White Paper on Economic Development, "Building Competitiveness" issued by the Minister of Development in February 1984, this topic was dealt with briefly. It was stated that *"in support of ongoing economic development in the Province, the Government of Nova Scotia will optimize Nova Scotian content in that [their] purchasing"*.

There is evidence of worthwhile initiatives by the Government Purchasing Agency with respect to this policy directive. There have been examples of the Agency assisting provincial suppliers in their efforts to obtain government business on both a price and quality basis, competitive with sources from outside the Province. It is in a supportive role such as this that we believe the Agency provides a useful service to the economic development of this Province.

Monthly Reporting

The Agency has developed and introduced a monthly report on results indicators. This report, under 11 key activities, records quantitative data respecting the performance of the purchasing responsibility. In addition, cost and staffing data under three different classifications are produced. This report appears to be an extremely useful device for monitoring the Agency's activities, and we commend the Agency for its development and introduction.

Specifications

There were several key recommendations by the consultants under such categories as the use of standardized specifications, monitoring of departmental specification requests, and related research activities. The Agency has been able to undertake some development work in this area, but to date it has not been as extensive as the consultants suggested.

Tendering Process

There are three items regarding the tendering process which require attention by the Agency and Government. These relate to the maintenance of bidders lists, public access to these lists, and the use of public advertising for tenders on a more extensive basis than is currently being used.

Conclusion

It is our overall conclusion that the purchasing function is being performed in a reasonably effective manner. This conclusion is based on our completion of phase one only, with certain detailed audit work to be performed in phase two.

However, there are several significant matters with respect to the Act and operating policies and procedures of the Agency which deserve attention. These relate primarily to area buying, monthly reporting, and the tendering process.

Department of Tourism
Resort Hotels

Introduction

The Department of Tourism operates three resort hotels owned by the Province of Nova Scotia. They are Keltic Lodge, Digby Pines, and Liscombe Lodge. These resort hotels employ 18 full-time and approximately 370 casual employees, and together generate total revenues before expenses of over $4 million annually.

On a regular basis, usually bi-annually, our Office reviews the operations of these hotels. These reviews have centered principally on accounting and financial controls, but during the current year we completed an assignment of broader scope.

The objectives of this assignment were to analyze the operating performance of the resort hotels over the past three years, and to assess the adequacy of the financial and management systems in use at the three resorts and at the head office of the Department.

The extent of this assignment was broader than any previous one conducted by our Office. In November 1979 we reported to the Department on an indepth study, centered on accounting and financial systems. Subsequently, the Department engaged a firm of management consultants to undertake an organizational review. In their April 1980 report, the consultants revealed many shortcomings in the financial, operational and administrative systems and controls.

Since that time, substantial improvements have been made in the operating systems, and the staffing of administrative and management positions. On the basis of our current review, it is our opinion that managements at both the Department and hotel levels are competent and fulfilling their responsibilities reasonably well.

We have presented a report to the Department which includes our audit findings, conclusions, and recommendations. A summary of the more significant matters is presented under four headings:

Operating Results and Disclosure
Management Controls and Information Systems
Facilities and Properties Management
Accounting Systems and Controls

Operating Results and Disclosure

Our principal objective in this area was to determine the profitability of each of the hotels over the past three years. The financial results for each resort are determined on a basis which does not recognize all costs of operation. Costs, such as depreciation of equipment and buildings, certain maintenance expenses, insurance and employee benefits are not charged to resort operations. Also, there is no allowance for interest on the investment in the three hotels.

In order to produce what we term a full cost determination of operating results, we assigned actual or estimated costs for those items currently not being charged. We prepared operating statements for each hotel for the fiscal years 1983, 1984 and 1985. Scheduled below is a summary of these results.

Provincial Resort Hotels
Schedule of Operating Results
(Prepared on an Estimated Full Cost Basis)
For the Fiscal Years Ended March 31

	1985	1984	1983
		($000)	
Per Public Accounts			
Revenues	$4,289	$4,141	$4,163
Expenditures	4,325	4,190	3,978
Net loss (income) before other costs	36	49	(185)
Costs not charged to Hotels			
Maintenance, insurance and employee benefits	305	183	303
Net loss before depreciation and interest	341	232	118
Depreciation	391	373	344
Interest charges	966	923	859
Net loss after other costs	$1,698	$1,528	$1,321

The charges for maintenance, insurance, and employee benefits are the actual amounts incurred by the hotels and paid for by the Departments of Government Services and Finance. Using the expenditures incurred by the Province on furniture, equipment and buildings and assuming straight line amortization, we apportioned depreciation over a ten year period for furniture and equipment and a thirty-five year period for buildings. We assumed that all capital expenditures would be paid for by Provincial borrowings, with an imputed 10% interest charge.

The above schedule shows significant losses, which for 1985 are estimated at $1.7 million. This compares with a $36,000 loss on the hotel operations as reported in the Public Accounts of the Province.

It is not my responsibility to question the decision to operate these hotels at this level of overall cost. However, it is my contention that the present method of disclosing their financial results in the Public Accounts of the Province, is not complete. This is due to the fact that certain costs incurred by other departments are not billed to the hotels, and other costs such as depreciation and interest are not being recognized.

It would seem appropriate to disclose the complete operating results of these provincial resort hotels in an income statement format, similar to the one presented above. Both the Public Accounts and the Department's Annual Report should show the financial results in such a manner.

At present, the disclosure of annual operating results comprises merely the total revenues and expenditures of the three hotels. These amounts are to be found separately in the Public Accounts — hardly an appropriate mode of disclosure.

Management Controls and Information Systems

We reviewed the management information systems, including the budgetary process. In general, we found the regular operating reports in use to be appropriate, timely, and consistent with industry practice.

We prepared operating ratios for all three hotels, and compared them among the three and to industry statistics. This analysis showed higher cost ratios in several areas at Keltic, principally because of a higher staff complement. Management were aware of the underlying conditions conveyed, even though the formal ratios were not being prepared.

The audit encompassed an examination of results indicators used to assess the operations of the hotels. There are six key operations indicators being computed and reviewed by management monthly. From our review of industry practices, we noted several other indicators which we have suggested be considered for adoption.

There were two weaknesses with respect to the budgetary process. Certain standards, relating to such matters as revenue estimates and food and beverage cost ratios appeared unreasonable, and not achievable under normal circumstances. Also, room rates and food and beverage prices were not based upon revenue-cost analysis and profit objectives. Although current rates may well be appropriate in terms of facilities available, competition and other considerations, a more analytical approach should be adopted.

It is our opinion that the budgetary process for the resort hotels has to take into account the relationship between revenues and the complete costs of operations.

Facilities and Properties Management

The Department of Government Services performs a landlord function, including the provision of some maintenance services, and renovation and construction services, for the hotel properties.

In assessing how well this function is coordinated, we found that insufficient information is provided by Tourism to support their capital construction budget request, and Tourism does not have a long-range facility plan for each hotel. Capital planning was basically short-term or ad hoc in nature. It was our recommendation that more detail be provided to justify and prioritize annual requests for renovations or construction. Long range facilities planning had been initiated during the course of our audit review.

We reviewed the extent to which facilities were maintained in a manner considered acceptable for resort hotels. On the basis of this review, we reported 22 observations which we felt warranted attention.

Accounting Systems and Controls

We reviewed and assessed the accounting and financial controls relating to cash receipts and disbursements, receivables and revenues, personnel and payroll, purchasing, and inventories. This review was similar to the regular audits that we have conducted in previous years.

We noted considerable improvement in the controls, systems and staffing related to the accounting function. We have, however, made recommendations relating to several control weaknesses which we feel warrant corrective action. One item worthy of comment relates to insufficient internal audit activity by the Department in reviewing specific accounting functions and other operations at the hotels. It is our contention that the hotels warrant a broader, more intensive ongoing review by Internal Audit.

We also reviewed the personnel and payroll activities to assess the appropriateness of personnel administration practices. Our only major observation concerned the hiring process. It was noted that during the operating year as staff vacancies occur, approval to restaff must be obtained from head office of the Department. This process often contributes to long delays and, in times of high occupancy, can result in understaffing which may impair the level of service provided.

Concluding Comments

I acknowledge that decisions concerning the operations of the resort hotels must include more than just financial data. Each individual hotel affects the socio-economic environment of the community in which it is located. These hotels are considered a significant part of the tourism industry in the Province, and their spinoff benefits can be viewed as quite substantial. Nonetheless, this does not negate the importance of ensuring that the financial data and analysis relating to the hotels be prepared on a complete and accurate basis. Also, there must be a greater degree of disclosure of the actual annual operating results.

The responsibility for the successful operation of these hotels, by both their resident management groups and by those in the Department's Halifax office, is one of both magnitude and difficulty. Our audit pointed out situations regarding controls and systems, and the management of facilities, which require attention and corrective action.

We acknowledge that it may not be possible to address all of these conditions immediately or completely, because of financial constraints and other priorities. In spite of these limitations, the Department and resort hotel management must develop an overall assessment of their requirements and an appropriate plan of action to meet those of a critical nature for which resources can be made available.

In conclusion, three other pertinent comments can be made. There has been a significant improvement in hotel operating systems and staffing since our last indepth audit in 1979. In our view, both Department and resort hotel management are competent, and were cognizant of the problems which we identified in our report to them. Finally, one cannot lose sight of the fact that the operation of the two larger units, Digby Pines and Keltic Lodge, is more difficult because of the age and functional layout of these two resort hotels.

Department of Transportation Special Maintenance Projects

We reviewed a program administered by the Department called Special Maintenance Projects. This program is described in the Estimates as providing *"an increased level of maintenance which is not generally possible through the routine maintenance programs"*.

We reviewed the systems used to approve, fund and administer these projects from April 1, 1980 to March 31, 1985. We included both the capital and current expenditures under this program.

We determined that the primary purpose of the Special Maintenance Projects was to provide employment in certain areas of the Province. The projects carried out under this program were specifically designed to be labour intensive, and total current and capital expenditures for the past five years were $22.3 million.

Estimates for the Program

Funds for Special Maintenance Projects have been included in the Provincial Estimates only once during the period 1982 to 1985. We note that the 1985-86 Estimates includes an amount of $2 million. The following schedule shows the funds approved in the Estimates, approvals given to the Regional Managers by Head Office, and actual current expenditures.

Special Maintenance Projects
Estimates, Approvals and Actual Current Expenditures
Five Years ended March 31, 1985

Year	Estimates	Approvals by Head Office	Actual
1981	—(1)—	$ 4,480,000	$ 4,225,455
1982	$1,000,000	3,300,000	3,479,067
1983	—	—	—
1984	—	1,963,500	2,007,270
1985	—	6,963,500	6,542,971
	$1,000,000	$16,707,000	$16,254,763

(1) Specific allocations in the Estimates for Special Maintenance Projects are not identified as the new Management Planning and Budgeting System was not fully operational until 1982.

As shown above, actual expenditures exceeded the Estimates in 1982. In 1984 and 1985 funds were not included in the Estimates, but expenditures were incurred.

We found no evidence that an analysis was undertaken to determine whether the funds were allocated to the areas of the Province where the greatest need existed. Regional Managers and Division Engineers are not consulted on amounts allocated for Special Maintenance Projects or the counties to which they are allocated. However, we established that there was a need for the work performed under the program.

Regional Managers are advised that special maintenance expenditures are not to exceed the approvals from Head Office.

Generally, special maintenance expenditures were within these approvals. However, these approvals were always in excess of what amount, if any, was included in the Estimates. Therefore, it has been necessary each year to process Additional Appropriations.

Purpose and Funding

The purpose of this maintenance program, as described in the Estimates, is to provide an increased level of maintenance which is not generally possible through the routine maintenance programs. However, we determined from our audit examination that the special maintenance program had a purpose quite distinct from that described above. In every case, we were informed that the program was designed to provide summer employment in certain areas of the Province.

As an employment program, the activities conducted were mainly labour intensive with brush-cutting being the major one. We found that all the projects could have been conducted through the routine maintenance programs of the Department. Therefore, the separate classification of this program under the caption Special Maintenance Projects does not appear necessary or appropriate.

Transportation cannot take advantage of the summer employment program of the Department of Development. All field employees of the Department are members of the Canadian Union of Public Employees. Under the union agreement, the Department is required to hire members from a recall list once work becomes available. The agreement also specifies certain wage rates. The Government summer employment programs were not available to the Department because of the recall list and these higher wage rates. Accordingly, the Special Maintenance Projects program was used to provide employment.

We compared the special maintenance expenditures with some of the factors considered when the Department allocates resources, namely — the level of regular maintenance expenditures, brush-cutting expenditures, and employment rates in the counties. The allocation of funds under this program did not appear to be related to these factors or established priorities of the Department.

An analysis of the allocation of Special Maintenance Projects funding to the counties of the Province over the past five years indicates

considerable disparity in the amounts allocated. The following schedule shows the total current and capital expenditures by county over the past five years.

Department of Transportation
Special Maintenance Current and Capital Expenditures
April 1, 1980 to March 31, 1985

County	Current Expenditures	Capital Expenditures	Total Expenditures
Annapolis	$ 1,264,021	$ 817,172	$ 2,081,193
Antigonish	—	—	—
Cape Breton	1,429,100	—	1,429,100
Colchester	1,466,759	521,727	1,988,486
Cumberland	1,003,058	409,680	1,412,738
Digby	34,953	—	34,953
Guysborough	206,944	—	206,944
Halifax County	922,691	134,857	1,057,548
Halifax Suburban	2,444,172	506,473	2,950,645
Hants	752,574	286,517	1,039,091
Inverness	666,157	98,421	764,578
Kings	1,843,516	1,068,324	2,911,840
Lunenburg	1,209,192	922,062	2,131,254
Pictou	1,411,645	368,317	1,779,962
Queens	416,273	364,579	780,852
Richmond	298,164	98,623	396,787
Shelburne	128,698	—	128,698
Victoria	646,948	465,085	1,112,033
Yarmouth	109,898	—	109,898
	$16,254,763	$6,061,837	$22,316,600

Project Selection

In selecting maintenance projects, the Regional Manager considers information received from Department staff and his own observations. Regional Managers also consider input received from the public in the form of complaints and information from some Members of the Legislative Assembly (MLA's). All of these factors should be weighed when selecting a project. However, the present process does not ensure that input is received from all MLA's.

Some MLA's had the opportunity to provide considerable input and influence on the Special Maintenance Projects. We found that in actual practice, the projects were acceptable to the Division Engineers and the Regional Managers. In all cases that we examined, the final approval for Special Maintenance Projects undertaken was given by the Regional Manager.

The projects undertaken were necessary and the Province appears to have received value for the special maintenance funds expended. None of the projects we examined could be classified as unnecessary.

In all cases, Special Maintenance Projects are controlled by the same management and internal controls used to monitor other maintenance programs, and are subject to the same supervision and inspection.

Nevertheless, we are concerned that a system exists which permits some Members of the Legislature to direct that specific projects be undertaken in selected areas.

Conclusions

As a result of our examination, we have arrived at the following conclusions:

1. The approval process for Special Maintenance Projects has not always been in accord with the methods used for other Department expenditures, in that the Estimates did not include funds for this program in 1981, 1984, and 1985. In 1982, when $1 million was provided in the Estimates, actual spending was more than three times this amount. We believe that planned Special Maintenance Projects expenditures should be included in the Estimates, as they are for the 1985-86 fiscal year.

2. The Members of the Legislative Assembly are not being fully informed as to the purpose of the Special Maintenance Projects program. If the special maintenance program is meant to provide employment, then it should be so described in the Estimates of the Province.

3. The system for administering Special Maintenance Projects provides an opportunity for a limited number of MLA's to direct that specific projects be undertaken. We have observed no instances where this opportunity was abused.

4. The Special Maintenance Projects program has enhanced the level of maintenance of the transportation system of the Province. The activities conducted under the special maintenance program were necessary and subject to the same controls as other maintenance programs of the Department.

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OTHER AUDIT OBSERVATIONS

Introduction

During each year, my Office performs many audits in the departments of government, reviewing their accounting and financial systems and examining transactions. The extent and variety of these audits may be seen by a reading of Appendix II to this Report, which tabulates the 54 audits performed in 19 departments during the current audit year.

These audits are done to fulfill the audit mandate of Section 7 of the Auditor General Act. Section 8 of the Act requires that I report certain specific items that come to my attention during these audits. This requirement is met by the reporting found in this section of my Report, and in the article on Additional Appropriations, page 44.

The articles under this caption "Other Audit Observations", may be termed "reporting by exception", discussed briefly in the Introduction section of this Report.

Cash and Other Losses

Pursuant to Section 8(1)(e) of the Auditor General Act, I report the following incidents of "deficiencies or losses through fraud, default or mistake of any person".

Department of Agriculture

- The Steam Mill Grain Center office of the Provincial Grain Commission had a break-in and resulting cash loss of $150. The R.C.M.P. investigated, but no arrest or recovery was made.

Department of Attorney General

Six minor cash losses occurred during the fiscal year totalling $156.

A break-in to a provincial magistrate's office resulted in the loss of $184. Investigation by police led to an arrest and subsequent conviction.

Department of Consumer Affairs

The theft or disappearance of an electric fan was reported.

Department of Education

This Department experienced four break and enters, with nine losses of cash and equipment. No recoveries or arrests have been made in connection with these thefts.

Total cash losses were $455, while the value of equipment losses was slightly over $10,000. The major items of stolen equipment were: television monitor and video cassette recorder from the Trade Mart, Halifax ($1,500); video monitor and two video cassette recorders from Education Media Services, Bayers Road, Halifax ($6,400).

Department of Health

The Vital Statistics Division incurred a cash loss of $45. No recovery has been made.

Department of Social Services

Two break and enters resulted in the theft of petty cash funds from the New Glasgow office ($150), and the Nova Scotia Institute of Technology office ($50).

Department of Transportation

Material and equipment losses during the year amounted to $9,184. Of 23 incidents, only two resulted in the apprehension of guilty parties, and the recovery of the stolen items valued at $1,308.

* * * * * *

Management Manual Bulletin

In both our 1981 and 1984 Annual Reports, we pointed out the need for revised procedures and responsibilities regarding the process for dealing with actual or suspected losses. The present Management Manual Bulletin covering this matter is dated June 1964.

The Department of Finance has prepared a revised draft bulletin which has recently been submitted to Management Board for approval and inclusion in the Government of Nova Scotia Management Manual. We have reviewed the draft submission, concur with its provisions, and anticipate its early implementation. We will carefully monitor compliance with it by the departments.

Computer Related Audits

Introduction

In the last four Annual Reports of this Office, we have commented on the results of a number of computer related audits. These included environmental reviews, the use of computer assisted audit techniques and special assignments.

During the current year, our activities were devoted to several areas:

- a follow-up review of security practices and procedures at the Systems and Computer Services Division (SCSD) of the Department of Government Services, originally reported in our 1981 Report;

- environmental reviews at Camp Hill Hospital and the Victoria General Hospital;

- a follow-up at the Department of Fisheries relating to the computerization program started in 1982, and reported in my 1984 Annual Report;

- an intensive program of developing and applying computer assisted audit techniques for use in our departmental and financial statement audits; and

— assistance with staff training, for administrative and audit purposes, on the microcomputer installed in our Office in 1984.

Environmental Reviews

Our Office conducts environmental reviews in departments and agencies where computers are used to assist with the accounting and financial activities. These reviews consist of detailed audits of general environmental controls and procedures with respect to the management and use of computer resources. They cover areas such as:

— documentation of systems and programs;

— controls over development and maintenance of systems;

— organization of the computer activity; and

— controls over the operation of systems, processing of data, and security of computer resources.

During the past four years, we have completed 21 environmental reviews covering most of the major computer installations within the government. Although only two were performed in the 1984-85 year, we plan to conduct eight environmental reviews during the 1985-86 audit year.

Environmental reviews were performed this year at Camp Hill Hospital and the Victoria General Hospital. We noted significant improvements in several areas including access controls, provision of documentation standards, use of formal computer steering committees, back-up and recovery plans, and security programs.

Our review of the Department of Fisheries computer installation in early 1984, indicated an unsatisfactory computer development situation with significant implementation problems. There were also key weaknesses in the areas of controls, security and documentation. Since then, a decision has been made to convert the Fisheries Development Fund accounting system to the SCSD computer. This project is scheduled to commence early in the 1986-87 fiscal year. While it is

encouraging to see this problem finally being resolved, it is unfortunate that this computerization plan has taken over four years, and still requires further development time and effort to complete.

SCSD Security Review

During the past year, we completed a follow-up to our 1981 review of security practices and procedures at the Systems and Computer Services Division of the Department of Government Services. Our objectives were to determine the progress made in addressing the deficiencies and weaknesses identified in 1981, and to review new security and control features implemented since that time.

The Division has done a commendable job in remedying the deficiencies and weaknesses that we reported upon in 1981. Significant accomplishments were — they conducted a security audit and field evaluation, implemented a new access control system, and secured additional equipment to provide on-site back-up.

However, there remain two major issues which require consideration. We refer to the need for a thorough risk analysis, and the development of a comprehensive security and contingency plan. It is essential that SCSD periodically perform a risk analysis to identify, prioritize, and quantify risks or threats to the computer operation. Such analysis is essential in order to develop a comprehensive security and contingency plan. Management of SCSD is fully aware of the need for this analysis and the development of a comprehensive security and contingency plan. Funding has been requested in the 1986-87 budget year to address both of these issues.

As part of this audit, we performed a preliminary review of the new access control system, which was installed to control access to the computer system and data residing on it. Our review indicated that the control features of this system provide an improved level of access control to the computer resources. We plan further reviews to examine more closely the detailed control routines and procedures, and the interfaces that this access control system has with other parts of the SCSD computer operation.

Computer Resource Management

My 1984 Report describes the background to the matter of Electronic Data Processing (EDP) resource planning. I indicated there had been a positive response to the need for a coordinated approach to computer resource management, primarily achieved by the establishment of an EDP Advisory Committee to deal with issues relating to the acquisition and use of computer resources.

During the past year, a Government Systems Overview has been issued which outlines the overall strategy for EDP development within the Government of Nova Scotia. It is designed to serve as a framework and reference guide for use by departments and agencies in preparing their plans for computer acquisition and use. Departmental management information systems coordinators have been appointed in all departments. Long range systems plans for all departments have been prepared and submitted to Management Board for review and approval.

The formation and operation of the EDP Advisory Committee, and the preparation of the long range systems plans are notable developments in the overall coordination and control over acquisition and use of computer resources throughout government.

Department of Finance

Cash Management

The Department of Finance administers sinking fund investments. In our examination of one of these sinking funds, for the fiscal year ended March 31, 1984, we reported that an average of $1.4 million was held in a savings account. There appeared to be no justification for holding such a large amount in a savings account. Investment income could have been increased by $28,000 had the funds been invested in short-term deposits.

In a subsequent audit, covering the 19 months ended October 31, 1985, we found that the average amount held in the savings account was $2.5 million for the period. If short-term investments had been used, interest earnings could have been increased by $140,000.

We recommended that the Department implement a system that would promptly recognize the availability of funds to be invested in longer term investment instruments for maximization of investment earnings.

Department of Municipal Affairs

Municipal Grants

Under the Municipal Grants Act, Section 36, municipal units may be granted emergency funding. The specific provisions of the Act read as follows:

(1) *The Minister may, with the approval of the Governor in Council, provide financial assistance to individual municipalities in cases in which, in his opinion, it is necessary and expedient to do so and where the municipality faces extraordinary financial difficulty.*

(2) *No such financial assistance shall be provided until the municipality has filed with the Minister a detailed proposal satisfactory to the Minister designed to remedy the financial difficulty of the municipality and has complied with any further conditions imposed by the Minister.*

The foregoing provisions provide for emergency funding as a temporary arrangement until solutions are found for the municipal unit's financial difficulties. As a prerequisite to granting emergency funding, a detailed review of the unit's financial and administrative practices is conducted, usually by Department staff. The municipality is required to file a detailed proposal, designed to remedy the situation. In addition, until this year, there was the requirement for quarterly financial statements of the unit's operating fund to be filed with the Department.

During our audit of the 1984-85 fiscal year, we noted the following two conditions:

— nine of the 19 municipal units receiving emergency funding in calendar year 1984 also received funding in each of the previous four years; and

— the Department has not made it a requirement for the municipal unit to comply with their recommendations as a prerequisite to receiving the emergency funding. In many instances, municipal units did not adopt the recommendations of the Department which were designed to resolve the financial difficulties being experienced.

It is my contention that before emergency funding is provided, there should be a commitment from the municipal unit to adopt a detailed plan of action, based upon the recommendations of the Department.

Dartmouth Ferry Operation

Under the Urban Transit Support Program, the Department pays the City of Dartmouth an annual per capita grant for the Dartmouth Ferry operation. In prior years, the Department paid the City of Dartmouth an amount sufficient to cover the deficit resulting from the ferry operation.

For the calendar years ended December 31, 1984 and 1983, these per capita grants from the Province to the City of Dartmouth amounted to $550,000 and $530,000. For the same years the ferry operation generated operating surpluses of $188,369 and $90,724 for a total of $279,093. Total accumulated surplus of the Dartmouth Ferry operation at December 31, 1984 amounts to $311,234.

It is possible that annual operating surpluses and the accumulated surplus to date may be reduced in future years, through increased costs of operation or expanded services.

Nevertheless, annual operating grants from the Province should not be in excess of actual needs. There should be some means of adjustment so that grants do not provide funds that contribute to the accumulation of a surplus.

Overstated Expenditures

The Department may provide assistance to municipal units for up to 50% of the cost of water and sewer projects. This assistance is recorded

as a capital expenditure under the Provincial Capital Assistance Program.

Expenditures under this program were recorded as $4,225,100 for the year ended March 31, 1985. This total included $2,116,128 as an account payable. Of this amount, only $41,262 was supported by claims from the municipalities representing expenditures made to that date. Although approved capital expenditures of a department may be expended over a two-year period, the reported expenditures for any given year should reflect only those actually made.

The amount set up as an account payable represents funding approved for municipal capital projects for 1984-85. However, these amounts were not incurred by the Department during the fiscal year and therefore are not bona fide payables. Accordingly, the Department's capital expenditures are overstated by $2,074,866.

Portland Estates Property

In his 1980 Annual Report, the Auditor General described the circumstances leading up to the expropriation of the Portland Estates property by the Province in 1975, and the principal provisions of a financial agreement made in 1980 with Portland Estates Limited. In view of developments since 1980, I feel that an update on the situation is appropriate.

It was pointed out in the 1980 Report that the Province had proceeded towards expropriation of the property, contrary to the recommendations of the Nova Scotia Housing Commission. Over $4 million had been spent on land, legal, interest and final settlement costs prior to an agreement being signed in 1980 whereby the Province would cease expropriation action but retain 10 acres of land, sufficient to widen Portland Street in the City of Dartmouth.

This 1980 agreement had the following major provisions:

— $2.6 million first mortgage loan at 14% from the Province to Portland Estates Limited;

— no payments on principal and interest required during first three years, although interest would accrue; and

— payments to commence in October 1983 on the $3.9 million loan, comprising $2.6 million principal and $1.3 million accrued interest to that date.

A number of amending agreements have been made since 1980, the most recent in September 1984. The amending agreements permitted Portland Estates Limited to receive additional funds by first mortgage from the Canadian Commercial Bank. Some payments had been received by the Province to September 1984, but an amount in excess of $3.5 million remained outstanding at that time.

The September 1984 agreement has the following major provisions.

- The Province relinquished to the Canadian Commercial Bank all claim to Phase 1 of the development, and accepted a second mortgage in place of its first mortgage claim for the remaining part of the property.

- The $1.3 million accrued interest from 1980 to 1983 was forgiven, and a payment of $550,000 on principal was made to the Province. These two factors reduced the outstanding loan of $3.5 million to $1.7 million.

- The Province is to receive payments to retire the remaining $1.7 million principal in amounts of $3,000 from the proceeds of each lot sold from Phase II of the property. Interest at 14% is to accrue on the principal outstanding from September 1984.

- This payment arrangement, based on sale of lots, is to continue to September 1987 at which time minimum monthly installments of principal and interest are to commence, sufficient to retire the debt by 1992.

- The Province was assigned benefit along with the Bank, of an insurance policy in the amount of $1 million on the life of the principal shareholder of Portland Estates Limited — evidence of payment of premiums to be furnished to the Province.

In performing our current update on the situation, two matters concerning administration of this loan were noted.

- No government department had possession of the assigned $1 million life insurance policy nor had anyone received evidence of premium payments. Subsequently, evidence of payment was obtained.

- Well-defined responsibilities for the administration of this large loan had not been clearly assigned to departments of government. Consequently, there was a lack of awareness of lapses in compliance, as noted above. In addition, there has been no monitoring of collection risk by such means as an analysis of annual audited financial statements of Portland Estates Limited.

Conclusion

In order to convey information which summarizes the relevant financial data relating to this property, the following tabulation is presented.

Outlays by Province		**Millions**
To October, 1980	Land expropriation, legal and interest costs	$3.5
October, 1980	Settlement with Portland Estates Limited	.6
	Mortgage loan to Portland Estates Limited	2.6
October, 1980 to December, 1985	Interest on mortgage receivable from Portland Estates Limited	1.9
Total outlays		8.6

Amounts recovered or recoverable

October, 1980 to October, 1984	Principal and interest repayments	$1.2	
December 31, 1985	Principal and interest owing on Portland Estates Limited mortgage	2.0	3.2
Unrecoverable outlays			$5.4

The unrecovered or written off costs of the Province on the properties are $5.4 million to December 31, 1985. This comprises the $3.5 million of unrecovered expenditures at the time of the October 1980 agreement, plus settlement costs with Portland Estates Limited of $.6 million, and the write off of $1.3 million in mortgage interest for the period October 1980 to October 1983.

Since this matter was first raised in the 1980 Report, the unrecoverable costs to the Province have increased by $1.3 million. In addition, the Province has relinquished all claim to Phase I of this development and has accepted a second mortgage in place of its first mortgage claim for the remaining part of the property.

Provincial Retirement Plans

Introduction

The Auditor General has the responsibility each year to audit both the Public Service Superannuation Fund and the Nova Scotia Teachers' Pension Fund. Each audit requires the expression of an opinion on the balance sheet and the statement of continuity of the fund. The audits involve a review of contributions received, investments, and pension payments made.

However, we are not required to assess the funds' positions in relation to future pension commitments. This assessment is performed by a qualified actuary, and the actuarial reviews of the two funds have normally been performed on at least a five year basis.

An actuarial report on the Public Service Superannuation Fund was completed in June of 1985, relating to the status of the Fund at June 30, 1984. The most recent actuarial valuation of the Teachers' Pension Fund was completed in May of 1981, relating to the Fund's position at July 31, 1979.

The actuarial valuation of a pension fund is a relatively complicated process. It involves mathematically forecasting future expectations for the pension plan, taking into consideration factors related to anticipated salary progression, estimates of inflation, the rate of return on invested funds, and probable rates of employee retirement, death or disability. The valuation process determines the difference between the total projected costs of pension benefits that will have to be paid, and projected future premiums from both employee and employer, plus earnings of invested pension funds.

The actuary prepares an "Actuarial Balance Sheet" which shows the present value of liabilities for pension benefits earned to that date for active employees still working, anticipated benefits payable for future pensioners, and expected refunds of contributions upon death or termination of current employees. From the total liabilities so calculated is deducted the current value of all investments in the fund at balance sheet date. The residual amount is termed an unfunded liability.

Since the unfunded liabilities in both plans have been relatively large, it has been the practice of this Office to comment on the results of the actuarial valuations in the years in which they are released. There have been extensive commentaries in the 1977, 1981, 1982 and 1983 Annual Reports of this Office.

It should be noted that there are different points of view regarding the need to fund completely, partly or indeed at all, liabilities for pensions in the government sector. This is a complex question and not susceptible to a definitive point of view. Recent actuarial reports for the pension funds of the Province of Nova Scotia suggest that it is not unreasonable to carry some degree of unfunded liability in a mature and stable pension fund of a province.

However, it must be pointed out that increases in unfunded liabilities will result, eventually, in a situation where benefits earned to date will have to be met from future revenues or premiums. This

deferment of costs, for payment by some future generation of taxpayers or contributors, is one that must be minimized and if possible reduced from present levels.

Public Service Superannuation Fund

The actuarial report on the Public Service Superannuation Fund as at June 30, 1984, and completed in June 1985, contains the following principal conclusions.

- The unfunded liability at June 30, 1984 is $252.5 million.
- This compares with a revised unfunded liability at June 30, 1981 of $246.1 million. (The last actuarial report at June 30, 1981 reflected a lower unfunded liability of $165.2 million, because at that time only 4% of the total 6% indexing provision was being paid from the Fund. The Consolidated Fund was bearing the other 2%. Since 1983, the Fund bears the full cost of the 6% indexing provision, which necessitated an adjustment to the original June 1981 unfunded liability, increasing it to $246.1 million. This was an appropriate adjustment to make.)
- Accordingly, there is an increase in the unfunded liability over the three year period of $6.4 million.
- In August 1983, overall contributions to the plan were increased by 1% of salary, one-half paid by the employee, plus a matching amount by the Province.
- Several changes in actuarial assumptions were made in the current valuation. The principal one was recognition of a higher real investment return available today.

A comparison worth noting is that the unfunded liability of $252.5 million shown on the actuarial balance sheet represents 34% of the present value of the liabilities calculated at balance sheet date. This compares with an unfunded liability representing 45% of the liabilities at the last actuarial review date of June 30, 1981, a fairly significant improvement.

Another critical calculation performed in an actuarial review is a comparison of the cost of benefits currently being earned with total employee and employer contributions. There is currently an excess of contributions over costs of 1.83%, and this is available to reduce the unfunded liability. This is a marked improvement over the deficiency of 1.38% in 1981, a serious situation at that time with the contributions not matching the cost of benefits being earned.

The actuarial report indicated that the general approach used in determining the various actuarial assumptions was what might be termed a "realistic" funding policy. This was consistent with that generally followed in evaluating government pension plans, and consistent with the approach used in the previous valuations in 1981 and 1976.

The valuation at June 30, 1984 is in line with Government's decision to conduct three year actuarial reviews, rather than ones of a five year frequency. This is a decision we commend because the five year interval is too long, when there are many variables with respect to benefits, contributions, and fund earnings impacting during the intervening period.

The notes to the financial statements of the Public Service Superannuation Fund report that the "unfunded actuarial liability" is $252.5 million. However, the note also refers to an "unfunded accrued liability" of $29.4 million.

This latter figure should not be confused with the unfunded actuarial liability of $252 million. The $29 million was calculated by the actuary to show the position of the Fund, *"if, for some reason, the employer were to go out of business, it is likely of only theoretical interest in this case as the probability of the Province ceasing its operations is, for all practical purposes, nil"*. It thus might be termed a hypothetical situation showing what would happen should the plan be wound up at the actuarial balance sheet date, and no further benefits be earned by those currently in the plan. This might be a useful calculation for certain purposes, but it should not be interpreted as indicating a reduction of $200 million in the unfunded actuarial liability, nor that the Fund is nearly fully funded.

Teachers' Pension Fund

The last actuarial valuation of the Nova Scotia Teachers' Pension Fund was at July 31, 1979, and the report was released in May, 1981. There is a valuation scheduled as of July 31, 1984, and an actuary has been engaged to perform this review.

However, it is unlikely that the actuarial review will be completed before mid 1986. The reason for this delay is the time involved in gathering the data necessary for the actuarial review. Salary reports received from School Boards are often not ready for actuarial review for almost a year. This is a consequence of inappropriate accounting systems used to generate data, both at the School Board level and at the Teachers' Pension Commission. It is our understanding that a decision was made in late 1985 to proceed with the computerization of the system used to accumulate the salary data. It may take as long as two to three years to complete this computerization.

There were concerns regarding two matters relating to the Teachers' Pension Fund. Firstly, the unfunded liability is large, amounting to $457.9 million at July 1, 1979, which was an increase of $274 million since July 1974. Secondly, at the time of the 1979 actuarial review, there was a deficiency of 10% in current contributions from both teachers and government in relation to the cost of current pension benefits. In recognition of these serious circumstances, an actuarial cash flow study was undertaken in 1983, and in August 1984, both employee and employer contributions were increased by 10%.

Accordingly, because of the significance of the unfunded liability, it is my recommendation that serious consideration be given to performing an actuarial valuation of the Teachers' Pension Fund more frequently than every five years. As well, every effort must be made to shorten the period between the actuarial balance sheet date, and the release of the actuarial report — the present two year interval being too long.

Conclusion

Regarding the Public Service Superannuation Fund, there appears to be a stabilization of the unfunded liability amount, due to the increase in real return on the funds invested, and the excess of current premiums

over benefits earned as a result of the increase of 1% in premium contributions. This latter condition should serve to gradually decrease the unfunded liability.

Regarding the Teachers' Pension Fund, there has to be serious concern with the large unfunded liability of the Fund, and the long delays in accumulating necessary salary information. Consequently, every effort should be made to update the actuarial valuation and have these valuations performed more frequently than every five years. Consideration must be given to what action can be taken to stabilize and improve the financial position of the Fund.

Reservations of Opinion

The provisions of Section 7(b) and (d) of the Auditor General Act assign to me the responsibility for ascertaining whether in my opinion:

— all revenues to which the Province is entitled have been received, and that there are adequate systems and procedures to administer the revenue collecting function; and

— essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

To carry out this responsibility, it is necessary to review and evaluate the financial and accounting controls in the departments of government. Should certain controls be found inadequate, these inadequacies must be considered in rendering an opinion.

The following paragraphs describe those instances where it was not possible to express an opinion that the existing records, controls and systems were adequate.

Department of Attorney General

During the year we audited 12 of the 15 Provincial Judges Administration Units. The audit is described in this Report in more detail beginning on page 58. For a number of these offices we were unable to express an unqualified opinion due to inadequate division of duties in

the systems to control revenues, receivables and receipts for Provincial fines and costs. This was primarily due to limited staff availability at the units, and no increased compensating controls at Head Office.

We also noted a number of other accounting and control deficiencies which precluded us from expressing a favourable opinion.

Department of Attorney General

In the office of the Superintendent of Insurance, there is no independent method of ensuring the completeness of tax revenues or amounts owing at year end. The related accounting system does not assist in minimizing or detecting clerical errors. Due to these inadequacies, we were not able to express an unqualified opinion on the completeness of tax revenues.

Department of Fisheries

We qualified our report for the Estuarine and Inland Fisheries Division due to the inadequacy of the system for controlling billing and cash handling procedures for revenues. The main deficiencies were of an accounting control nature and have subsequently been corrected.

Department of Transportation

We reviewed the controls surrounding the computerized accounting system at Head Office. Although the system appears to be generally well designed, there were two serious weaknesses in internal control. There is an inadequate segregation of duties in the computer installation. A similar deficiency in the control records section has subsequently been remedied. Because of these serious control weaknesses, our opinion contained a reservation relating to the accuracy and completeness of data processed by the computer.

Victoria General Hospital

This year, as was the case in the prior two years, deficiencies in controls over laboratory revenues existed. As these weaknesses have not been remedied, it again was not possible to issue an unqualified report for the Hospital.

Venture Corporations Board

In my 1984 Annual Report, there was a brief article on the Venture Corporations Board and its making of loans under the Venture Corporations Act. The purpose of this Act is to register venture corporations and approve equity loans to such corporations. The venture corporations' investments are in small businesses, ones that traditionally have difficulty qualifying for conventional loans.

The program is growing steadily, and at March 31, 1985 loans totalling $6.5 million had been made to venture corporations, an increase from $3.7 million at March 31, 1984. The terms of loans under the Venture Corporations Act provide for no repayments in the first ten years unless there are distributions to the venture corporation shareholders. Repayments with interest begin after the ten year period, but only if the venture corporations are profitable at that time.

Venture corporations, in order to continue as corporations registered and receiving equity loans under the Act, must within four months of their year end, file audited financial statements and an annual return. The annual return is to specify certain information for each investment made by a venture corporation. These include: name and address of the business; its major products or services; the amount, date and nature of the investment; and the number of employees before the investment and currently.

Our 1984 Report commented on the lack of compliance by a large number of venture corporations in submitting audited financial statements and annual returns as specified by Sections 15 and 16 of the Act. This lack of compliance was evident again in our examination this year. Thus, it has not been possible for the Board to fully perform its annual status reviews and risk assessments of all outstanding loans.

Currently the Board does not have sufficient information to evaluate the loans it has made to the venture corporations. The Act prescribes that venture corporations carry their investments on "the cost basis" in their financial statements. The more appropriate and informative method would be to carry these investments on "the equity basis" which would more accurately reflect the underlying value of the investment. Also, there is no stipulation that the venture corporations receive detailed financial information on a regular basis from the businesses in which they have invested.

These deficiencies impair the Board's ability to fulfill its loan valuation function. To provide some perspective on the magnitude of the risk involved in this investment program, it is pointed out that at March 31, 1985, it was necessary to set up an allowance for doubtful accounts in an amount of 35% of outstanding loans.

In summary, compliance with the Act and more complete information as outlined above, would enhance the Board's capability to administer this program in three significant respects:

— provision of regular and indepth information on current operating results of the investments;

— assistance in assessing the competence and monitoring abilities of each venture corporation; and

— forming an opinion on loan recoveries and the need for an allowance for doubtful accounts.

Since the success of the program is dependent upon the Board's ability to seek out those venture corporations best able to provide money as well as managerial acumen to selected small businesses, it is imperative the Board receive suitable information on a timely basis.

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OFFICE
OF
THE AUDITOR GENERAL

Office of the Auditor General

Introductory Comments

In the Audit Responsibilities section of this Report under Scope (page 22), I expressed some concerns regarding the level of resources provided this Office to fulfill its legislated and appointed audit responsibilities.

I do appreciate the difficult financial problems facing government, and will continue to assess the manner in which we perform our audits with a view to implementing further efficiencies.

This Office operates with an annual audit plan which converts all audit assignments to required hours. These required audit hours are compared with the available hours, and a detailed schedule is prepared for the entire audit year.

The total annual audit hours estimated for all the audits we must perform is 39,600 hours. This comprises financial statement opinion audits (Appendix III), audits in government departments and agencies (Appendix II), other audit assignments in crown agencies and corporations (Appendix IV), and the special audit assignments discussed on page 58. In addition there are allowances for preparation of the Annual Report, staff training and development, recruitment and other staffing responsibilities, in-house quality control reviews, and other administrative matters.

Over the past few months, two staff members have been involved in secondments to crown agencies under employment arrangements of up to two years. I am pleased we have had professionally qualified staff to assist the agencies concerned, and also to acknowledge that this type of exchange can be of real benefit in the professional development of the persons concerned.

Staff Complement

The approved staff complement for the 1985-86 fiscal year was 33 comprising:

Senior Staff		
Auditor General, Deputy and Assistant Auditors General and two Directors		5
Audit Teams and Support Staff		24
Audit Managers	5	
Audit Supervisor	1	
Senior Audit Officers with Professional Qualifications	7	
Audit Officers — includes Students and Technicians	11	
Administrative Support Staff		4
		33

Due to delays in filling approved positions, a lengthy staff illness, and deletion of one approved position, the office operated at an average complement of less than 30 persons for the 10 months to January 31, 1986. We lost 3.3 person years during this period, and this seriously impaired our audit efforts for the year.

We had to make significant adjustments to the 1984-85 audit plan, the two principal ones being cancellation, deferral or reduced audit coverage of 2,600 audit hours; and a carryover to the 1985-86 audit year of more than 1,000 hours.

In response to Management Board's request for expenditure reduction for the 1986-87 fiscal year, we have proposed an approved staff complement of 32, (a reduction of 1 from 1985-86). The available audit hours for a staff of 32 is 37,800 hours. Although there is a deficiency of 1800 hours in comparison to the 39,600 required hours mentioned previously, we are prepared to make the necessary adjustments to operate with 32 staff.

Financial

The expenditures and recoveries of the Office for the year ended March 31, 1985, as compared with the approved estimate and the previous year's actual, are scheduled below. The actual net expenditures for 1984-85 are less than both the estimates for that year, and the actual for the previous year. The reason for this is that the Office operated significantly below its approved staffing complement, as noted in the preceding section of this article.

	Estimate 1984-85	Actual 1984-85	Actual 1983-84
Expenditure			
Salaries	$1,138,100	$1,021,271	$1,122,015
Other	144,400	131,512	114,232
	1,282,500	1,152,783	1,236,247
Recoveries	145,000	136,200	132,800
Net Expenditures	$1,137,500	$1,016,583	$1,103,447

Professional Development and Affiliations

The complexities and growth of government are placing an increasing burden on legislative auditors. Expectations of legislative auditors from various segments of the public have increased dramatically in recent years. These burdens and expectations are requiring of the auditor a far greater degree of responsibility for breadth, depth and type of audit coverage. All of this is taking place in a period with distinct pressures for improved efficiency and productivity by auditors.

In attempting to meet these challenges, the Office maintains membership in appropriate associations and organizations, actively participates in the exchange of information and ideas with other legislative auditors, conducts formal course offerings and seminars, and provides extensive on the job training.

In July of 1985, the thirteenth annual meeting of the Canadian Conference of Legislative Auditors was held in Whitehorse, Yukon Territory. Although our Office has been represented at all past meetings, it was not possible to have someone attend this one.

The Atlantic Provinces Legislative Auditors held their 1985 annual meeting in Charlottetown. The four Auditors General and their Deputies met to review common matters pertaining to auditing and administration. I attended this meeting with the Assistant Auditor General.

Previous Annual Reports have referred to the Canadian Comprehensive Auditing Foundation. The Office maintains membership in this organization. We support and benefit from its publications, courses and conferences. During the past year staff have attended certain course offerings, and the Foundation's annual conference.

A representative of the Office attended the 1985 annual meeting of the Legislative Auditors' Practices Committee. The members of this group exchange information pertaining to legislative audit practices, and participate in workshops on relevant topics.

Throughout the year staff members attended seminars and courses related to auditing, computers and general management. In appropriate areas we were once more assisted by the Human Resource Development Section of the Civil Service Commission and acknowledge our appreciation for their support. Perhaps somewhat in exchange, staff from my Office have presented sessions to other groups from within the Province's public service.

I am pleased to report that during the year two students in the Office were successful in qualifying for entry to the Institute of Chartered Accountants.

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APPENDICES

APPENDIX I

The Auditor General Act

Section 7

The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purposes or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

(a) accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection, and proper allocation of the capital and revenue receipts;

(c) money has been expended for the purposes for which it was appropriated by the Legislature, and the expenditures have been made as authorized; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

Section 8

(1) The Auditor General shall report annually to the House of Assembly the results of his examination and call attention to every case in which he has observed that

(a) any officer or employee had wilfully or negligently omitted to collect or receive any public money belonging to the Province; or

(b) any public money was not duly accounted for and paid into the Consolidated Fund; or

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature; or

(d) an expenditure was not authorized or was not properly vouched, or certified; or

(e) there has been a deficiency or loss through fraud, default or mistake of any person; or

(f) a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized the payment of money;

and to any other case that the Auditor General considers should be brought to the notice of the House of Assembly.

(2) The report of the Auditor General shall be laid before the House of Assembly on a day following the day upon which the Public Accounts have been laid before the House of Assembly.

(3) Whenever a case of the type described in clause (a), (b) or (e) of subsection (1) comes to the attention of the Auditor General, he shall forthwith report the circumstances of the case to the Minister.

Section 16

(1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall

(a) supply to the Auditor General annually a copy of all financial statements and reports prepared by them relating to the agency of government; and

(b) make available to the Auditor General, upon request and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.

(2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary.

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APPENDIX II

Audits Performed by Auditor General
In Government Departments

Agriculture
- Department operations

Attorney General
- Criminal Injuries Compensation Board
- Department operations
- Legal Aid Federal Claim
- Registry of Joint Stock Companies
- Legal Aid Trust Fund

Consumer Affairs
- Department operations
- Superintendent of Insurance

Culture, Recreation and Fitness
- Department operations

Development
- Department operations

Education
- Department operations
- Museum claims
- School grants
- Student Aid
- University assistance

Environment
- Department operations

Finance
- Additional appropriations
- Cash and bank controls
- Department operations
- Disbursements review and testing
- Gas and diesel tax
- Manual cheques
- Payroll review and testing
- Provincial Tax Commission
- Revenues and advances
- Securities count
- Trusts and semi-trusts

APPENDIX II (continued)

Fisheries
- Department operations

Government Services
- Department operations

Health
- Department operations
- Drug Dependency Commission
- Hospital Capital Fund
- Hospital construction grants
- Medical Services Insurance — administration expenses
- Payments to institutions

Housing
- Department operations

Labour and Manpower
- Department operations
- National Training Act claim

Mines and Energy
- Canada — Nova Scotia Agreement on Oil Substitution and Conservation
- Department operations

Municipal Affairs
- Department operations

Public Service
- Department operations

Social Services
- Canada Assistance Plan claim
- Department operations
- Family benefits
- Grants and assistance

Tourism
- Department operations

Transportation
- Canso causeway
- Department accounting systems
- Ferry operations
- Parts and supplies inventory
- Registry of Motor Vehicles
- Road and bridge construction
- Truro Lumber Yard

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APPENDIX III

Audits Performed by Auditor General
Crown Corporations, Boards, Commissions, and Funds

Agricultural Organizations
- Provincial Grain Commission
- Nova Scotia Crop and Livestock Insurance Commission
- Community Pastures Board

Education Institutions
- Atlantic Provinces Special Education Authority
- Technical University of Nova Scotia

Hospitals
- Camp Hill Hospital
- Cancer Treatment and Research Foundation of Nova Scotia
- Halifax Infirmary
- Halifax Infirmary Foundation
- Nova Scotia Hospital
- Victoria General Hospital

Lending Organizations and Funds
- Housing Development Fund
- Industrial Expansion Fund
- Industrial Loan Fund
- Nova Scotia Farm Loan Board
- Nova Scotia Fisheries Development Fund
- Small Business Development Corporation

Pensions
- Members' Retiring Allowance Account
- Nova Scotia Teachers' Pension Fund
- Public Service Superannuation Fund

Regulatory Bodies
- Board of Commissioners of Public Utilities
- Nova Scotia Lottery Commission
- Public Accountants Board of the Province of Nova Scotia

Other
- Atlantic Industrial Research Institute
- Canso Superport Limited
- Clairtone Holdings Limited
- Nova Magnetics Limited
- Novaco Limited
- Nova Scotia Legal Aid Commission
- Nova Scotia Research Foundation Corporation
- Nova Scotia Talent Trust
- Public Trustee
- 107375 Holdings Limited

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APPENDIX IV

Audits Performed by Private Sector Auditors
Crown Corporations, Boards, Commissions, and Agencies

Check Inns Limited
Council of Maritime Premiers
Halifax-Dartmouth Bridge Commission
Industrial Estates Limited
Municipal Finance Corporation
Nova Scotia Liquor Commission
Nova Scotia Liquor License Board
Nova Scotia Power Corporation
Nova Scotia Rehabilitation Centre Corporation
Nova Scotia Resources Limited
Sherbrooke Restoration Commission
Sydney Steel Corporation
Tidal Power Corporation
Waterfront Development Corporation Limited
Workers' Compensation Board
World Trade Centre Limited

Hospitals
(Agencies as defined in Auditor General Act)

Eastern Memorial Hospital
Eastern Shore Memorial Hospital
Glace Bay Community Hospital
Inverness Consolidated Memorial Hospital
Northside Harbor View Hospital
Strait-Richmond Hospital
Sydney City Hospital
Twin Oaks Memorial Hospital

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